POWER FINANCIAL
CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING RESULTS

MARCH 11, 2009

FINANCIAL STATEMENTS AND NOTES

FOR THE YEAR ENDED
DECEMBER 31, 2008

This document is also available on www.sedar.com or
on the Corporation's Web site, www.powerfinancial.com

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POWER FINANCIAL CORPORATION

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This document contains management's discussion and analysis of operating results of Power Financial Corporation for the year ended December 31, 2008 and the audited consolidated financial statements of the Corporation as at and for the year ended December 31, 2008. This document has been filed with the securities regulatory authorities in each of the provinces and territories of Canada and mailed to shareholders of the Corporation in accordance with applicable securities laws.

POWER FINANCIAL CORPORATION

PART A

POWER FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING RESULTS

MARCH 11, 2009

ALL TABULAR AMOUNTS ARE IN MILLIONS OF CANADIAN DOLLARS UNLESS OTHERWISE NOTED.

The following sets forth management's discussion and analysis (MD&A) of the consolidated financial position and results of operations of Power Financial Corporation (Power Financial or the Corporation) for the twelve-month and three-month periods ended December 31, 2008. This document should be read in conjunction with the Consolidated Financial Statements of Power Financial and notes thereto for the year ended December 31, 2008. Additional information relating to Power Financial, including its Annual Information Form, may be found on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS › Certain statements in this MD&A, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the Corporation's and its subsidiaries' current expectations. Forward-looking statements are provided for the purposes of assisting the reader in understanding the Corporation's financial position and results of operations as at and for the periods ended on certain dates and to present information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. These statements may include, without limitation, statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of the Corporation and its subsidiaries, as well as the outlook for North American and international economies, for the current fiscal year and subsequent periods. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "seeks", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could".

This information is based upon certain material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking statements, including perceptions of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances.

By its nature, this information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. A variety of material factors, many of which are beyond the Corporation's and its subsidiaries' control, affect the operations, performance and results of the Corporation and its subsidiaries, and their businesses, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to: the impact or unanticipated impact of general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, management of market liquidity and funding risks, changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates), the effect of applying future accounting changes (including adoption of International Financial Reporting Standards), business competition, operational and reputational risks, technological change, changes in government regulation and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Corporation's and its subsidiaries' ability to complete strategic transactions, integrate acquisitions and implement other growth strategies, and the Corporation's and its subsidiaries' success in anticipating and managing the foregoing factors.

The reader is cautioned that the foregoing list of factors is not exhaustive of the factors that may affect the Corporation's and its subsidiaries' forward-looking statements. The reader is also cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements.

Other than as specifically required by law, the Corporation undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results, or otherwise.

Additional information about the risks and uncertainties of the Corporation's business is provided in its disclosure materials, including its Annual Information Form, filed with the securities regulatory authorities in Canada, available at www.sedar.com.

OVERVIEW

Power Financial is a holding company with substantial interests in the financial services industry through its controlling interests in Great-West Lifeco Inc. (Lifeco) and IGM Financial Inc. (IGM). Power Financial also holds, together with the Frère group of Belgium, an interest in Pargesa Holding SA (Pargesa).

For a more complete description of the activities and results of Lifeco and IGM, readers are referred to Parts B and C of this MD&A, which consist of their respective annual MD&As and financial statements, as prepared and disclosed by these companies in accordance with applicable securities legislation. This information is also available either directly from SEDAR (www.sedar.com), or from the Web sites of Lifeco (www.greatwestlifeco.com) and IGM (www.igmfinancial.com), respectively. Part D consists of information relating to Pargesa, which is derived from public information issued by Pargesa.

On December 30, 2008, Lifeco announced the closing of its public offering of approximately $600 million of common shares and its private placement to Power Financial of approximately $400 million of common shares. As at December 31, 2008, after giving effect to such offering and private placement, Power Financial and IGM held 68.7% and 4.0%, respectively, of Lifeco's common shares, representing approximately 65% of the voting rights attached to all outstanding Lifeco voting shares. As at December 31, 2008, Power Financial and The Great-West Life Assurance Company (Great-West Life), a subsidiary of Lifeco, held 56.4% and 3.5%, respectively, of IGM's common shares.

Power Financial Europe B.V., a wholly owned subsidiary of Power Financial, and the Frère group each hold a 50% interest in Parjointco N.V. (Parjointco), which, as of December 31, 2008, held a 54.1% equity interest in Pargesa, representing 62.9% of the voting rights of that company. These numbers do not reflect the dilution which could result from the potential conversion of debentures convertible into new bearer shares issued by Pargesa in 2006 and 2007, as disclosed in the Corporation's previous MD&As.

The Pargesa group has substantial holdings in major companies based in Europe. These investments are held by Pargesa directly or through its affiliated Belgian holding company, Groupe Bruxelles Lambert (GBL). As at December 31, 2008, Pargesa held a 50.0% equity interest in GBL, representing 51.8% of the voting rights.

As of December 31, 2008, Pargesa's portfolio was composed of interests in various sectors, including primarily oil, gas and chemicals through Total S.A. (Total); energy, water and waste services through GDF SUEZ and Suez Environnement Company (Suez Environnement); specialty minerals through Imerys S.A.; cement and building materials through Lafarge S.A. (Lafarge); and wines and spirits through Pernod Ricard S.A. (Pernod Ricard). In addition, Pargesa and GBL have also invested, or committed to invest, in the area of private equity, including in the French private equity funds Sagard 1 and Sagard 2, whose management company is a subsidiary of Power Corporation of Canada.

OUTSTANDING NUMBER OF COMMON SHARES

As of the date hereof, there were 705,013,680 Common Shares of the Corporation outstanding, compared with 704,893,680 at December 31, 2007. The increase in the number of outstanding Common Shares reflects the exercise of options under the Corporation's Employee Stock Option Plan. As of the date hereof, options were outstanding to purchase up to an aggregate of 10,626,115 Common Shares of the Corporation under the Corporation's Employee Stock Option Plan.

BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

The Consolidated Financial Statements of the Corporation have been prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP or GAAP herein) and are presented in Canadian dollars.

Changes in Accounting Policies

Capital Disclosures Effective January 1, 2008, the Corporation adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535, *Capital Disclosures*. The section establishes standards for disclosing information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Financial Instruments Disclosure and Presentation Effective January 1, 2008, the Corporation adopted CICA Handbook Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*. These sections replace Section 3861, *Financial Instruments – Disclosure and Presentation*. Presentation standards are carried forward unchanged. Disclosure standards have been changed to complement the changes in accounting policy adopted in accordance with Section 3855, *Financial Instruments – Recognition and Measurement*.

These new requirements relate to disclosure only and do not impact the financial results of the Corporation.

Inclusion of Pargesa's Results

The investment in Pargesa is accounted for by Power Financial under the equity method. As described above, the Pargesa portfolio currently consists primarily of investments in Imerys, Total, GDF SUEZ, Suez Environnement, Lafarge and Pernod Ricard, which are held by Pargesa directly or through GBL. Imerys' results are consolidated in the financial statements of Pargesa, while the contribution from Total, GDF SUEZ, Suez Environnement, Pernod Ricard and, until December 31, 2007, Lafarge, to GBL's operating earnings consists of the dividends received from these companies. Since January 1, 2008, the investment in Lafarge has been accounted for by GBL under the equity method, and consequently, the contribution from Lafarge to GBL's earnings now consists of GBL's share of Lafarge's net earnings.

The contribution from Pargesa to Power Financial's earnings is based on the economic (flow-through) presentation of results as published by Pargesa. Pursuant to this presentation, operating income and non-operating income are presented separately by Pargesa. Power Financial's share of non-operating income of Pargesa, after adjustments or reclassifications if necessary, is included as part of other income in the Corporation's financial statements.

Non-GAAP Financial Measures

In analyzing the financial results of the Corporation and consistent with the presentation in previous years, net earnings are subdivided in Results of Power Financial below into the following components:

- operating earnings; and
- other items, which include the after-tax impact of any item that management considers to be of a non-recurring nature or that could make the period-over-period comparison of results from operations less meaningful, and also include the Corporation's share of any such item presented in a comparable manner by Lifeco or IGM. Please also refer to the comments above related to the inclusion of Pargesa's results.

Management has used these financial measures for many years in its presentation and analysis of the financial performance of Power Financial, and believes that they provide additional meaningful information to readers in their analysis of the results of the Corporation.

Following the announcement in 2007 of Great-West Life & Annuity Insurance Company's (GWL&A) sale of its healthcare business, which closed on April 1, 2008, the results from Lifeco's U.S. healthcare business have been presented in the Corporation's Consolidated Financial Statements as "discontinued operations", in accordance with GAAP. In this section, Power Financial's share of these results is included in operating earnings, while its share of the gain realized on the sale is included in other items.

Operating earnings and operating earnings per share are non-GAAP financial measures that do not have a standard meaning and may not be comparable to similar measures used by other entities. For a reconciliation of these non-GAAP measures to results reported in accordance with GAAP see "Results of Power Financial Corporation – Earnings Summary – Condensed Supplementary Statements of Earnings" below.

SUMMARY OF CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian GAAP requires management of the Corporation, as well as management of its subsidiaries, to adopt accounting policies and to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. A summary of major critical accounting policies and related judgments underlying the Corporation's Consolidated Financial Statements is presented below. In applying these policies, management of the Corporation and management of its subsidiaries make subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies are common in the insurance, the mutual fund and other financial services industries; others are specific to the Corporation's and its subsidiaries' businesses and operations. The results of the Corporation reflect management's judgments regarding the impact of prevailing global credit, equity and foreign exchange market conditions.

The Corporation's general accounting policies are described in detail in Note 1 to the Corporation's Consolidated Financial Statements. Accounting estimates are used in particular with respect to the following items:

Fair Value Measurement

Financial instrument carrying values necessarily reflect the prevailing market liquidity and the liquidity premiums embedded in the market pricing methods the Corporation relies upon.

Fair values for bonds classified as held for trading or available for sale are determined using quoted market prices. Where prices are not quoted in a normally active market, fair values are determined by valuation models primarily using observable market data inputs. Market values for bonds and mortgages classified as loans and receivables are determined by discounting expected future cash flows using current market rates.

Fair values for public stocks are generally determined by the last bid price for the security on the exchange where it is principally traded. Fair values for stocks for which there is no active market are determined by discounting expected future cash flows based on expected dividends and where market value cannot be measured reliably, fair value is estimated to be equal to cost. Market values for real estate are determined using independent appraisal services and include management adjustments for material changes in property cash flows, capital expenditures or general market conditions in the interim period between appraisals.

During the fourth quarter, the Corporation changed its pricing methodology for monoline wrapped, asset-backed securities backed by prime home improvement loans which are held by Lifeco's U.S. subsidiary, GWL&A. The Corporation concluded that an internal model utilizing asset-backed index spreads versus an external pricing source utilizing credit default swap spread assumptions would result in a better measurement of fair value for securities. Utilizing internal models for these securities, which have a fair market value of $454 million, resulted in a decrease to unrealized losses in the amount of $157 million when compared to the external pricing source. The use of internal valuation models did not affect the Corporation's operations, liquidity or capital resources during the period.

Impairment

Investments are reviewed regularly on an individual basis to determine impairment status. The Corporation considers various factors in the impairment evaluation process, including, but not limited to, the financial condition of the issuer, specific adverse conditions affecting an industry or region, decline in fair value not related to interest rates, bankruptcy or defaults and delinquency in payments of interest or principal. Investments are deemed to have an other than temporary impairment when there is no longer reasonable assurance of timely collection of the full amount of the principal and interest due or the Corporation does not have the intent to hold the investment until the value has recovered. The market value of an investment is not by itself a definitive indicator of impairment, as it may be significantly influenced by other factors, including the remaining term to maturity and liquidity of the asset. However, market price is taken into consideration when evaluating other than temporary impairment.

For impaired mortgages and bonds classified as loans and receivables, provisions are established or write-offs are made to adjust the carrying value to the net realizable amount. Wherever possible, the fair value of collateral underlying the loans or observable market price is used to establish net realizable value. For impaired available-for-sale loans, recorded at fair value, the accumulated loss recorded in accumulated other comprehensive income is reclassified to net investment income. Once an impairment loss on an available-for-sale asset is recorded to income, it is not reversed. All gains and losses on bonds classified or designated as held for trading are recorded in income. As well, when such bonds are determined to be impaired, interest is no longer accrued and previous interest accruals are reversed.

Current market conditions have resulted in an increase in the inherent risks of future impairment of invested assets. The Corporation monitors economic conditions closely in its assessment of other-than-temporary impairment of individual loans.

Goodwill and Intangibles Impairment Testing

Under GAAP, goodwill is not amortized, but is instead assessed for impairment at the reporting unit level by applying a two-step fair value-based test annually or more frequently if an event or change in circumstances indicates that the asset might be impaired. In the first test, goodwill is assessed for impairment by determining whether the fair value of the reporting unit to which the goodwill is associated is less than its carrying value. When the fair value of the reporting unit is less than its carrying value, the second test compares the fair value of the goodwill in that reporting unit (determined as a residual value after determining the fair value of the assets and liabilities of the reporting unit) to its carrying value. If the fair value of goodwill is less than its carrying value, goodwill is considered to be impaired and a charge for impairment is recognized immediately.

For purposes of impairment testing, the fair values of the reporting units are derived from internally developed valuation models using a market or income approach consistent with models used when the business was acquired. Under a market approach, the models consider various factors, including normalized earnings, projected forward earnings, and market multiples such as price-earnings ratios, enterprise value to assets under management and price to book multiples. Under the income approach, the discounted future cash flows are estimated for a discrete period, usually three to five years, and a terminal value is estimated for each of the reporting units. The future cash flows are based on best estimates of many inputs, most notably future revenues, cash expenses and taxes, as well as working capital changes over time and capital expenditures. Consideration is also given to economic conditions, and general outlook for the industry and markets in which the reporting unit operates. The discount rates used are based on an industry-weighted cost of capital and consider the risk-free rate, market equity risk premium, size premium and operational risk premium for possible variations from projections. The terminal value is the value attributed to the reporting unit's operations beyond the discrete projected period using a perpetuity growth rate based on industry, revenue and operating income trends and growth prospects. Where possible, fair values generated internally are compared to market information.

Acquired intangible assets are separately recognized if the benefits of the intangible assets are obtained through contractual or other legal rights, or if the intangible assets can be sold, transferred, licensed, rented, or exchanged.

Intangible assets can have a finite life or an indefinite life. Determining the useful lives of intangible assets requires judgment and fact-based analysis.

Intangible assets with an indefinite life are not amortized and are assessed for impairment annually or more frequently if an event or change in circumstances indicates that the asset might be impaired. Similar to goodwill impairment testing, the fair value of the indefinite life intangible asset is compared to its carrying value to determine impairment, if any.

Intangible assets with a finite life are amortized over their estimated useful lives. These assets are tested for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. In performing the review for recoverability, the future cash flows expected to result from the use of the asset and its eventual disposition are estimated. If the sum of the expected future undiscounted cash flows is less than the carrying value of the asset, an impairment loss is recognized to the extent that fair value is less than the carrying value. Amortization estimates and methods are also reviewed. Indicators of impairment include such things as a significant adverse change in the general business climate, a decline in operating performance indicators, a significant change in competition, or an expectation that significant assets will be sold or otherwise disposed of.

The fair value of intangible assets for customer contracts, the shareholder portion of acquired future participating account profits and certain property leases are estimated using an income approach, as described for goodwill above. The fair value of brands and trademarks are estimated using a relief-from-royalty approach using the present value of expected after-tax royalty cash flows through licencing agreements. The key assumptions under this valuation approach are royalty rates, expected future revenues and discount rates. The fair value of intangible assets for distribution channels and technology is estimated using the replacement cost approach. Management estimates the time and cost of personnel required to duplicate the asset acquired.

Actuarial Liabilities

Actuarial liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, and commissions and policy administrative expenses for all insurance and annuity policies in force with the relevant corporation. The Appointed Actuaries of the Corporation's subsidiary companies are responsible for determining the amount of the actuarial liabilities to make appropriate provision for Lifeco's obligations to policyholders. The Appointed Actuaries determine the actuarial liabilities using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The valuation uses the Canadian Asset Liability Method. This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment.

In the computation of actuarial liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses and rates of policy termination. The valuation assumptions use best estimates of future experience together with a margin for misestimation and experience deterioration. These margins have been set in accordance with guidelines established by the Canadian Institute of Actuaries and are necessary to provide reasonable assurance that actuarial liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness. Additional details regarding these adjustments and estimations can be found in Note 10 to the Corporation's Consolidated Financial Statements. See also Part B of this MD&A.

Income Taxes

As multinational life insurance companies, the Corporation's primary Canadian operating subsidiaries are subject to a regime of specialized rules prescribed under the *Income Tax Act* (Canada) for purposes of determining the amount of the companies' income that will be subject to tax in Canada. Accordingly, the determination of the companies' provision for income taxes involves the application of these complex rules in respect of which alternative interpretations may arise.

Management recognizes that interpretations it may make in connection with its tax filings may ultimately differ from those made by the tax authorities and accounts for these potential differences in its financial statements. Upon resolution of any such differences, amounts provided by management may be recognized in earnings to reflect actual experience.

The Corporation has substantial future income tax assets. The recognition of future tax assets depends on management's assumption that future earnings will be sufficient to realize the deferred benefit. The amount of the asset recorded is based on management's best estimate of the timing of the reversal of the asset.

Employee Future Benefits

Accounting for pension and other post-retirement benefits requires estimates of future returns on plan assets, expected increases in compensation levels, trends in healthcare costs, as well as the appropriate discount rate for the determination of accrued benefit obligations. Emerging experience, which may be different from the assumptions, will be revealed in the future valuations and will affect the future financial position of the plan and net periodic benefit costs. These estimates are discussed in Note 23 to the Corporation's Consolidated Financial Statements.

Deferred Selling Commissions

Commissions paid by IGM on the sale of certain mutual fund products are deferred and amortized over a maximum period of seven years. IGM regularly reviews the carrying value of the deferred selling commissions with respect to any events or circumstances that indicate impairment or that an adjustment to the amortization period is necessary.

FUTURE ACCOUNTING CHANGES

On January 1, 2009, the Corporation adopted CICA Handbook Section 3064, *Goodwill and Intangible Assets*. This standard contains revised guidance for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this standard is not expected to have a significant impact on the Corporation's financial position or results of operations.

The Canadian Accounting Standards Board has announced that Canadian GAAP will be replaced by International Financial Reporting Standards (IFRS), as published by the International Accounting Standards Board. Publicly accountable enterprises will be required to adopt IFRS on or by January 1, 2011. The Corporation will issue its initial Consolidated Financial Statements under IFRS, including comparative information, for the quarter ended March 31, 2011.

The Corporation has developed an IFRS changeover plan which addresses key elements of the convergence to IFRS and includes a formal project governance structure.

The Corporation has identified the differences between IFRS and Canadian GAAP that are expected to impact the Corporation, and is in the process of evaluating the impacts of the changeover on all business activities, accounting policies, information technology and data systems, internal controls over financial reporting, disclosure controls and procedures and financial reporting resources, including training requirements. Currently, it is not possible to fully determine the impact to the financial statements and any potential business impacts.

FINANCIAL MARKETS AND IMPACT ON THE CORPORATION

Global credit, equity and foreign exchange markets continue to experience significant volatility as a result of credit and liquidity concerns relating to deleveraging across financial markets, declines in value in most asset classes, particularly residential real estate, and the resulting global economic downturn. These concerns have led to the disruption in the normal functioning of credit markets around the world, unprecedented volatility and have resulted in many financial institutions experiencing financial difficulty. Governments across the globe have introduced measures intended to instill confidence in financial markets for financial institutions and their clients.

The S&P/TSX Composite Index in Canada declined 24% in the fourth quarter of 2008, which has resulted in a decline of 35% since the beginning of 2008. Also in the fourth quarter of 2008, the S&P 500 Index in the United States declined 23% and the FTSE 100 Index in the United Kingdom declined 10%, which has resulted in declines of 38% and 31%, respectively, since the beginning of the year. Market indexes for corporate credit and real estate-backed credit also experienced substantial declines in the year.

Consequently, the average S&P/TSX Composite Index level for the fourth quarter of 2008 was 34% lower than the same period in 2007. Similarly, the average index levels for the S&P 500 Index and the FTSE 100 Index were down 39% and 34%, respectively, from 2007 levels. The declines in average index levels were more moderate when comparing 2008 and 2007. The average index level for the S&P/TSX Composite Index for the year was down 8% compared to 2007 and the S&P 500 Index and the FTSE 100 Index were down 17% and 16%, respectively.

Period ended	**Year ended 2008**	**Dec. 31 2008**	**Sept. 30 2008**	**June 30 2008**	**Mar. 31 2008**	Year ended 2007	Dec. 31 2007	Sept. 30 2007	June 30 2007	Mar. 31 2007
S&P/TSX Composite Index										
Close	**8,988**	**8,988**	**11,753**	**14,467**	**13,350**	13,833	13,833	14,099	13,907	13,166
Average	**12,486**	**9,108**	**13,150**	**14,400**	**13,269**	13,620	13,885	13,816	13,806	12,986
S&P 500 Index										
Close	**903**	**903**	**1,166**	**1,280**	**1,323**	1,468	1,468	1,527	1,503	1,421
Average	**1,220**	**912**	**1,252**	**1,372**	**1,351**	1,477	1,496	1,489	1,497	1,424
FTSE 100 Index										
Close	**4,434**	**4,434**	**4,902**	**5,626**	**5,702**	6,457	6,457	6,467	6,608	6,308
Average	**5,363**	**4,260**	**5,354**	**5,983**	**5,881**	6,403	6,455	6,362	6,537	6,266

During the fourth quarter, Lifeco conducted its annual test for goodwill and intangible assets impairment. The test resulted in Lifeco recording a non-cash, after-tax impairment charge of $1,353 million in connection with goodwill and intangible assets in Lifeco's United States operations. The impairment charge at Lifeco reduced the carrying value of goodwill and intangible assets acquired in connection with the acquisition of Putnam Investments, LLC (Putnam), a subsidiary of Lifeco, in August 2007. The charge does not impact regulatory or operating capital. The impairment charge reflected management's assessment of the impact of the decline of Putnam's assets under management as a result of the deterioration of investment market conditions since the acquisition date. The decrease in assets under management, together with the current investment market and economic conditions and the expected timing of their future recovery, have lowered Lifeco's previous estimates of Putnam's future revenues and cash flows.

IGM completed its goodwill and intangible asset annual impairment testing prior to the fourth quarter of 2008. During the fourth quarter, IGM management's process of impairment review considered the impact of changing economic conditions and determined that an impairment test was not necessary.

On September 18, 2008, Lifeco announced that it held fixed income securities issued by Lehman Brothers Holdings Inc. (Lehman) with a par value of $101 million, and had investment exposure to various companies in the American International Group (AIG) with a par value of $347 million, including $149 million of fixed income securities issued by the holding company, American International Group Inc. On September 26, 2008, Lifeco announced that it had investment exposure to Washington Mutual Inc. with a par value of $2 million.

For the twelve months ended December 31, 2008, Lifeco recorded a charge for the impairment of assets, in relation to the fixed income securities mentioned above, of $100 million after tax. Lifeco considers the charge to be other than temporary, and the charge has reduced net income attributable to common shareholders reported by Lifeco. Fourth quarter charges by Lifeco of $4 million reflect additional market value fluctuations on investment exposures highlighted as impaired in the third quarter report, as well as other provision charges.

The deterioration in financial markets, as well as the extreme illiquidity of the bond markets coupled with indeterminable liquidity premiums, has produced a general widening of credit spreads and lower market prices for fixed income investments. This has resulted in a decline in the fair value of Lifeco's bond investments. At December 31, 2008, Lifeco's gross unrealized bond losses totalled $6.1 billion. Of the $6.1 billion, $5.7 billion is related to bonds that have been classified by Lifeco as held for trading and $0.4 billion is related to bonds that have been classified by Lifeco as available for sale. The held-for-trading bonds are held primarily in support of actuarial liabilities with changes in the fair value of these assets, excluding changes on other than temporarily impaired assets, offset by a corresponding change in the value of the actuarial liabilities. Lifeco has disclosed that it has the ability and intent to hold the securities with unrealized losses until a recovery of the fair value, which may be maturity; therefore, Lifeco does not consider these investments to be other than temporarily impaired at December 31, 2008.

IGM holds a portfolio of common shares. These common shares are classified by IGM as available for sale. Unrealized gains and losses on securities not designated as part of a hedging relationship are recorded by IGM in other comprehensive income until realized. As at December 31, 2008, IGM's net unrealized losses on common shares were $143 million. IGM's unrealized gains and losses on common shares net of hedges were $15 million and $126 million, respectively, and are reported by IGM in accumulated other comprehensive income. Common shares are assessed by IGM periodically, or more frequently when conditions warrant, to determine whether there is objective evidence of an other than temporary impairment in value. The majority of IGM's unrealized losses occurred during the latter part of 2008, reflecting the current market environment and resulting price fluctuations. IGM holds a diversified portfolio of securities that consists primarily of well-capitalized, dividend-paying Canadian common shares that are included in the S&P TSX 60 Index. IGM has disclosed that it has the ability and intent to hold these securities for a period of time sufficient to allow for any recovery of their fair value. As at December 31, 2008, IGM concluded that the gross unrealized losses were temporary.

IGM also holds fixed income securities of $231 million at December 31, 2008, composed primarily of Canadian chartered bank senior deposit notes and bankers' acceptances of $192 million and $35 million in non-bank-sponsored asset-backed commercial paper (ABCP). IGM's original investment in ABCP totalled $50 million. IGM reduced the fair value of the ABCP to $35 million by recording charges totalling $10 million in 2007 and charges of $2.5 million in each of the second and third quarters of 2008.

During the fourth quarter of 2008, GBL conducted a valuation of its investments classified as available for sale or accounted for under the equity method. For Lafarge, an investment regarded for accounting purposes as being subject to significant influence by GBL, a discounted cash flow analysis was performed and compared to GBL's carrying value. Given the range of values obtained, GBL recorded an impairment charge of €1,092 million (of which the Corporation's share was $255 million). This charge effectively brought the carrying value in-line with the net book value of Lafarge. GBL also recorded an impairment charge of €315 million (of which the Corporation's share was $73 million) on Pernod Ricard and of €87 million (of which the Corporation's share was $20 million) on its remaining investment in Iberdrola, bringing the carrying value of each of these two investments to market value at December 31, 2008.

RESULTS OF POWER FINANCIAL CORPORATION

This section is an overview of the results of Power Financial. In this section, consistent with past practice, the contributions from Lifeco and IGM, which represent most of the earnings of Power Financial, are accounted for using the equity method in order to facilitate the discussion and analysis. This presentation has no impact on Power Financial's net earnings and is intended to assist readers in their analysis of the results of the Corporation.

Earnings Summary – Condensed Supplementary Statements of Earnings

The following table shows a reconciliation of non-GAAP financial measures used herein, with the reported results in accordance with GAAP for net earnings and earnings per share.

	TWELVE MONTHS ENDED DECEMBER 31				THREE MONTHS ENDED DECEMBER 31			
	2008		2007		**2008**		2007	
	TOTAL	PER SHARE	TOTAL	PER SHARE	TOTAL	PER SHARE	TOTAL	PER SHARE
Contribution to operating earnings from subsidiaries and investment at equity	**2,056**		2,147		**447**		518	
Results from corporate activities	**(67)**		(50)		**(9)**		(14)	
Sub-total	**1,989**		2,097		**438**		504	
Dividends on preferred shares, Series C and J	**(15)**		(15)		**(4)**		(4)	
Operating earnings [1]	**1,974**	**2.69**	2,082	2.84	**434**	**0.59**	500	0.68
Other items[3]	**(637)**	**(0.90)**	(38)	(0.05)	**(1,207)**	**(1.71)**	32	0.05
Net earnings[1] [2]	**1,337**	**1.79**	2,044	2.79	**(773)**	**(1.12)**	532	0.73

[1] Net earnings per share and operating earnings per share are calculated after deducting dividends on perpetual preferred shares issued by the Corporation.

[2] Net earnings represent earnings before dividends on perpetual preferred shares issued by the Corporation, which dividends amounted to $74 million and $75 million in the twelve-month periods ended December 31, 2008 and 2007, respectively, and to $18 million and $19 million in each of the three-month periods ended December 31, 2008 and 2007.

[3] See other items section for additional information.

Operating Earnings

Operating earnings for the year ended December 31, 2008 were $1,974 million or $2.69 per share, compared with $2,082 million or $2.84 per share in the corresponding period in 2007. This represents a 5.4% decrease on a per share basis.

For the three-month period ended December 31, 2008, operating earnings were $434 million or $0.59 per share, compared with $500 million or $0.68 per share in the corresponding period in 2007. This represents a 13.7% decrease on a per share basis.

The figures above include Power Financial's share of results from discontinued operations related to Lifeco's U.S. healthcare business, for $31 million or $0.04 per share in the first quarter in 2008. Power Financial's share of results from this discontinued operation were $148 million or $0.21 per share in 2007, and $31 million or $0.04 per share in the three-month period ended December 31, 2007. The sale of this business was completed on April 1, 2008.

Share of Operating Earnings from Subsidiaries and Investment at Equity

Power Financial's share of operating earnings from its subsidiaries and investment at equity decreased by 4.2% for the year ended December 31, 2008, compared with the same period in 2007, from $2,147 million to $2,056 million. These amounts include Power Financial's share of results from discontinued operations related to Lifeco's U.S. healthcare business. For the three-month period ended December 31, 2008, compared with the corresponding period in 2007, the decrease was 13.7% (from $518 million in 2007 to $447 million in 2008).

Lifeco's contribution to Power Financial's operating earnings was $1,447 million for the twelve-month period ended December 31, 2008, compared with $1,517 million for the corresponding period in 2007. For the fourth quarter, the contribution from Lifeco to the Corporation's operating earnings was $368 million in 2008, compared with $377 million in 2007. These figures include the contribution to operating earnings from Lifeco's U.S. healthcare business. Details are as follows:

› Lifeco reported adjusted net income attributable to common shareholders of $2,061 million or $2.303 per share for the twelve-month period ended December 31, 2008, compared with $2,153 million or $2.413 per share in the corresponding period of 2007. This represents a 5% decrease on a per share basis. For the three-month period ended December 31, 2008, Lifeco reported adjusted net earnings of $525 million or $0.586 per share, compared with earnings of $537 million or $0.601 per share in the same period in 2007, a 2% decrease on a per share basis. Included in these amounts are the operating results from Lifeco's U.S. healthcare business (disposed of on April 1, 2008), which amounted to $43 million for the first quarter in 2008, compared with $203 million in 2007, and $43 million in the fourth quarter of 2007.

› The 2008 results were impacted by an after-tax charge for asset impairment of $100 million ($4 million in the fourth quarter of 2008), and an after-tax charge of $19 million incurred in connection with the transfer by Putnam, of its Prime Money Market fund to Federated Investors, Inc.

The above amounts exclude non-recurring items recorded by Lifeco in the twelve-month period ended December 31, 2008, including the following:.

› In the first quarter of 2008, Lifeco recorded non-recurring items totalling $118 million or $0.132 per share after tax consisting of (a) a gain realized in connection with the termination of a long-standing assumption reinsurance agreement for an amount of $176 million, and (b) a reserve strengthening in GWL&A's continuing operations for a charge of $58 million.

› In the second quarter of 2008, Lifeco recorded a gain of $649 million or $0.726 per share representing the gain on the sale of its U.S. healthcare business.

› In the fourth quarter of 2008, Lifeco recorded a non-cash after-tax impairment charge of $1,353 million in connection with goodwill and intangible assets related to the Putnam acquisition. In conjunction with this charge, Lifeco also wrote off a future tax asset in the amount of $34 million. During the fourth quarter of 2008, Putnam expanded its original restructuring plans. The additional restructuring expenses associated with the expanded plan are $45 million after tax.

› In the third quarter of 2007, Lifeco recorded a $97 million after-tax provision (or $0.109 per share) for certain Canadian retirement plans.

Including these non-recurring items, net income attributable to Lifeco's common shareholders for the twelve-month period ended December 31, 2008 was $1,396 million or $1.560 per share, compared with $2,056 million or $2.304 per share in the corresponding period of 2007. For the three-month period ended December 31, 2008, net income attributable to Lifeco's common shareholders was a loss of $907 million or $1.011 per share, compared with $537 million or $0.601 per share in the corresponding period of 2007.

For the twelve-month period ended December 31, the contribution from IGM to the Corporation's operating earnings was $426 million in 2008, compared with $485 million in 2007. For the three-month period ended December 31, 2008, the contribution from IGM to operating earnings was $77 million in 2008, compared with $124 million in 2007.

› IGM reported adjusted earnings attributable to common shareholders for the twelve-month period ended December 31, 2008 of $766 million or $2.89 per share on a diluted basis, compared with $864 million or $3.23 per share in the same period in 2007, a decrease of 10.5% on a per share basis. Adjusted earnings exclude an amount of $25 million, recorded in the second quarter, representing IGM's share of the gain recorded by Lifeco on the disposal of its U.S. healthcare business as well as a $60 million charge recorded in the fourth quarter representing IGM's share of Lifeco's after-tax impairment charge related to goodwill and indefinite life intangible assets.

› For the three-month period ended December 31, 2008, adjusted net income was $140 million or $0.53 per share on a diluted basis, compared with $219 million or $0.82 per share. Adjusted net income for the corresponding period in 2007 excluded a non-cash income tax benefit of $15 million resulting from decreases in the federal corporate income tax rates and their effect on the future income tax liability related to indefinite life intangible assets.

Net income of IGM for the year ended December 31, 2008, was $731 million or $2.76 per share on a diluted basis, compared with net income of $879 million or $3.29 per share in 2007. For the three-month period ended December 31, 2008, IGM's net income was $80 million or $0.30 per share, compared with $234 million or $0.88 per share in the corresponding period of 2007.

The contribution from the European investment at equity to Power Financial's operating earnings was $183 million in the twelve-month period ended December 31, 2008, compared with $145 million in the corresponding period of 2007. For the three-month period ended December 31, 2008, the contribution was $2 million, compared with $17 million in the corresponding period in 2007.

› Pargesa's operating earnings for the twelve-month period ended December 31, 2008 were SF708 million, compared with SF609 million in the corresponding period in 2007. For the three-month period ended December 31, operating earnings were SF14 million in 2008, compared with SF72 million in 2007. These amounts include Pargesa's share of earnings from Lafarge (SF285 million for the twelve-month period ended December 31, 2008 and SF49 million for the fourth quarter of 2008) as a result of GBL accounting for Lafarge under the equity method starting January 1, 2008. In 2007, the contribution from Lafarge consisted of the dividend received in the third quarter for an amount of SF75 million. Also, in the third quarter of 2008, Pargesa recorded an interim dividend declared by GDF SUEZ in the amount of SF78 million. This is in addition to the dividend received from Suez in the second quarter.

› Operating earnings of Pargesa exclude non-recurring charges of SF1,229 million for the twelve-month period ended December 31, 2008 (a charge of SF1,331 million in the fourth quarter of 2008), compared with SF113 million for the corresponding period of 2007 (SF101 million in the fourth quarter of 2007). The main component of the charge for 2008 is the impairment charge recorded by GBL in the fourth quarter of 2008 on its investment in Lafarge and, to a lesser extent, the impairment charges on Iberdrola and Pernod Ricard. Pargesa's non-operating earnings also include Pargesa's share of non-recurring items of Imerys and of Lafarge.

Results from Corporate Activities

Results from corporate activities, before dividends on the Corporation's Preferred Shares Series C and J, were net charges of $67 million and $50 million in the twelve-month periods ended December 31, 2008 and 2007, respectively. The variance is due to an increase in operating expenses.

For the three-month period ended December 31, 2008, corporate results before dividends on preferred shares Series C and J were a net charge of $9 million, compared with a net charge of $14 million in the corresponding period of 2007.

Dividends on preferred shares, Series C and J, which are classified as financing charges, amounted to $15 million in the twelve-month periods of 2008 and 2007, and $4 million in the fourth quarters of 2008 and 2007.

Other Items

For the twelve-month period ended December 31, 2008, other items were a charge of $637 million or $0.90 per share, compared with a charge of $38 million or $0.05 per share in the twelve-month period ended December 31, 2007. For the three-month period ended December 31, 2008, other items were a charge of $1,207 million or $1.71 per share, compared with $32 million or $0.05 per share in the corresponding period of 2007. Details of other items are as follows:

› Other items consisted of the Corporation's share of non-recurring items recorded by Lifeco, IGM and Pargesa, as described above.

› In addition, the Corporation recorded on a consolidated basis a dilution gain of $97 million resulting from Lifeco's common share issue in December 2008.

› The Corporation also recorded an amount of $113 million as other income related to the decrease of provisions for future dilution losses which the Corporation had previously recorded in connection with (a) stock options granted by its subsidiaries and (b) potential dilution from convertible debentures issued by Pargesa.

The following table provides further information on other items.

	TWELVE MONTHS ENDED DECEMBER 31				THREE MONTHS ENDED DECEMBER 31			
	2008		2007		**2008**		2007	
	TOTAL	PER SHARE	TOTAL	PER SHARE	TOTAL	PER SHARE	TOTAL	PER SHARE
Lifeco								
Impairment charge	**(983)**	**(1.39)**			**(983)**	**(1.39)**		
Restructuring costs	**(33)**	**(0.05)**			**(33)**	**(0.05)**		
Tax valuation allowance	**(25)**	**(0.04)**			**(25)**	**(0.04)**		
Gain on disposal of Healthcare	**472**	**0.67**						
Gain on reinsurance agreement	**128**	**0.18**						
Reserve strengthening	**(42)**	**(0.06)**						
Provision for retirement plans			(71)	(0.09)				
	(483)	**(0.69)**	(71)	(0.09)	**(1,041)**	**(1.48)**		
IGM (note)								
Future income tax rate change			9	0.01			9	0.01
Pargesa								
Impairment charge on Lafarge	**(255)**	**(0.36)**			**(255)**	**(0.36)**		
Impairment charge on Pernod Ricard	**(73)**	**(0.10)**			**(73)**	**(0.10)**		
Impairment charge on Iberdrola	**(20)**	**(0.03)**			**(20)**	**(0.03)**		
Share of Imerys non-recurring items	**(20)**	**(0.03)**	(5)	(0.01)	**(15)**	**(0.02)**	(3)	–
Share of Lafarge non-recurring items	**(6)**	**(0.01)**			**(13)**	**(0.02)**		
Other	**10**	**0.02**	29	0.04			26	0.04
	(364)	**(0.51)**	24	0.03	**(376)**	**(0.53)**	23	0.04
Corporate								
Dilution gain on Lifeco	**97**	**0.14**			**97**	**0.14**		
Provision for dilution losses	**113**	**0.16**			**113**	**0.16**		
	210	**0.30**			**210**	**0.30**		
	(637)	**(0.90)**	(38)	(0.05)	**(1,207)**	**(1.71)**	32	0.05

Note: IGM's share of other items of Lifeco is included in the Lifeco section of this table.

Net Earnings

Net earnings for the twelve-month period ended December 31, 2008 were $1,337 million or $1.79 per share, compared with $2,044 million or $2.79 per share in the corresponding period in 2007. For the three-month period ended December 31, 2008, the net loss was $773 million or $1.12 per share, compared with net earnings of $532 million or $0.73 per share for the three-month period ending December 31, 2007.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

CONDENSED SUPPLEMENTARY BALANCE SHEETS AS AT DECEMBER 31	2008	2007	2008	2007
	CONSOLIDATED BASIS		EQUITY BASIS [1]	
Assets				
Cash and cash equivalents	**4,689**	5,625	**607**	795
Investment at equity	**2,814**	3,503	**13,654**	13,002
Other investments	**101,006**	97,285		
Goodwill and intangible assets	**13,095**	14,176		
Other assets	**19,914**	9,525	**87**	97
Total	**141,518**	130,114	**14,348**	13,894
Liabilities				
Policy liabilities				
Actuarial liabilities	**97,895**	87,487		
Other	**4,732**	4,385		
Other liabilities	**9,173**	8,825	**379**	479
Preferred shares of the Corporation	**300**	300	**300**	300
Preferred shares of subsidiaries	**1,269**	1,303		
Capital trust securities and debentures	**658**	639		
Debentures and other borrowings	**5,658**	6,791	**250**	250
	119,685	109,730	**929**	1,029
Non-controlling interests	**8,414**	7,519		
Shareholders' equity				
Perpetual preferred shares	**1,575**	1,400	**1,575**	1,400
Common shareholders' equity	**11,844**	11,465	**11,844**	11,465
	13,419	12,865	**13,419**	12,865
Total	**141,518**	130,114	**14,348**	13,894

[1] Condensed supplementary balançe sheets of the Corporation using the equity method to account for Lifeco and IGM.

Consolidated Basis

The consolidated balance sheets include Lifeco's and IGM's assets and liabilities. Parts B and C of this MD&A relating to these subsidiaries include a presentation of their balance sheets.

Total assets increased to $141.5 billion at December 31, 2008, compared with $130.1 billion at December 31, 2007.

Investments at December 31, 2008 were $101.0 billion, a $3.7 billion increase from December 31, 2007. In general, growth in assets from organic business growth and acquisitions has been tempered by decreases in equity markets and higher credit spreads.

The investment at equity represents the Corporation's carrying value of Parjointco.

Goodwill and intangible assets decreased by $1.1 billion, mainly due to the impairment charge in connection with goodwill and intangible assets related to the Putnam acquisition.

Other assets were $19.9 billion at December 31, 2008, a $10.4 billion increase over December 31, 2007. This increase in other assets is attributable to Lifeco's increase in assets, primarily as a result of a transaction with Standard Life Assurance Limited. On February 14, 2008, Lifeco's indirect wholly owned Irish reinsurance subsidiary, Canada Life International Re Limited, entered into an agreement with Standard Life Assurance Limited, a U.K.-based provider of life, pension and investment products, to assume, by way of indemnity reinsurance, a large block of U.K. payout annuities. The reinsurance transaction increased funds held by ceding insurers and policy liabilities by $12.5 billion.

Liabilities increased from $109.7 billion to $119.7 billion. Lifeco's actuarial liabilities increased from $87.5 billion to $97.9 billion, mainly due to the transaction with Standard Life Assurance Limited, described above, which increased liabilities by $12.5 billion. This increase, and increases due to foreign exchange movements, were partly offset by reductions due to changes in the fair value of assets backing actuarial liabilities since January 1, 2008.

Debentures and other borrowings decreased by $1.1 billion during the year, due to the following:

› On March 26, 2008, a subsidiary of Putnam executed a US$200 million revolving credit facility with a Canadian chartered bank and drew US$80 million. The proceeds drawn on the revolving credit facility were used to repay in full a demand promissory note that had been issued on January 24, 2008. The amount outstanding under the revolving credit facility was US$120 million at December 31, 2008.

› On June 26, 2008, Lifeco issued $500 million of 7.127% Subordinated Debentures through an affiliated Delaware Limited Partnership, Great-West Lifeco Finance (Delaware) LP II (GWLP II). The subordinated debentures are due June 26, 2068 and bear an annual interest rate of 7.127% until June 26, 2018. After June 26, 2018, the subordinated debentures will bear a floating rate of interest equal to the three-month bankers' acceptance rate plus 3.78%. Subject to a Replacement Capital Covenant, the subordinated debentures may be redeemed by GWLP II at the principal amount plus any accrued and unpaid interest after June 26, 2018.

› Putnam Acquisition Financing LLC paid down its US$500 million five-year term facility to US$304 million on June 26, 2008, which balance remains outstanding at December 31, 2008.

› During the year, IGM issued bankers' acceptances in the amount of $287 million ($14 million in the fourth quarter of 2008).

› Since December 31, 2007, Lifeco has repaid, in full, the $1,233 million and US$647 million balances on its Canadian and U.S. dollar short-term credit facilities with a Canadian chartered bank. During the first quarter of 2008, Lifeco repaid $235 million of the Canadian dollar drawings. On April 18, 2008, Lifeco repaid $730 million of the Canadian dollar drawings and US$345 million of the U.S. dollar drawings. On June 26, 2008, Lifeco repaid the remaining $268 million and US$302 million outstanding on the Canadian and the U.S. dollar short-term credit facilities.

› On December 11, 2008, Canada Life redeemed the entire $200 million aggregate principal amount of its 5.80% Debentures, Series A.

Non-controlling interests include the Corporation's non-controlling interests in the common equity of Lifeco and IGM as well as the participating account surplus in insurance subsidiaries and perpetual preferred shares issued by subsidiaries to third parties. For further information, please refer to Note 14 to the Corporation's Consolidated Financial Statements.

Assets under administration, which are excluded from the Corporation's balance sheet, include segregated funds and proprietary mutual funds of Lifeco, and IGM's assets under management, at market value, as follows:

› The market value of Lifeco's segregated funds and proprietary mutual funds was $209 billion at the end of December 2008, compared with $268 billion at the end of 2007 (excluding the Putnam Prime Money Market Fund, which was transferred to a third party in the third quarter of 2008). Assets under administration at Lifeco decreased in the United States mainly due to a reduction in proprietary mutual fund assets, reflecting the negative impact of market performance and negative net asset flows, and the deterioration of investment market conditions, which were partly offset by the weakening of the Canadian dollar against the U.S. dollar.

› IGM's assets under management, at market value, were $102 billion at December 31, 2008, compared with $123 billion at the end of 2007.

Equity Basis

Under the equity basis presentation, Lifeco and IGM are accounted for using the equity method. This presentation has no impact on Power Financial's shareholders' equity and is intended to assist readers in isolating the contribution of Power Financial, as the parent company, to consolidated assets and liabilities.

Cash and cash equivalents held by Power Financial amounted to $607 million at the end of December 2008, compared with $795 million at the end of December 2007. The amount of quarterly dividends declared by the Corporation but not yet paid was $265 million at December 31, 2008 and $235 million at December 31, 2007.

In managing its own cash and cash equivalents, Power Financial may hold cash balances or invest in short-term paper or equivalents, as well as deposits, denominated in foreign currencies and thus be exposed to fluctuations in exchange rates. In order to protect against such fluctuations, Power Financial may, from time to time, enter into currency-hedging transactions with financial institutions with high credit ratings. As at December 31, 2008, essentially all of the $607 million of cash and cash equivalents were denominated in Canadian dollars.

The carrying value at equity of Power Financial's investments in Lifeco, IGM and Parjointco increased to $13,654 million at December 31, 2008, compared with $13,002 million at the end of December 2007. This increase is mainly due to:

› An investment by the Corporation in common shares of Lifeco for an amount of $400 million and a dilution gain of $97 million as a result of the decrease in the Corporation's interest in Lifeco following the issuance of common shares by Lifeco.

› Power Financial's share of net earnings from its subsidiaries and investment at equity, net of dividends received, amounting to $104 million.

› Power Financial's share of other comprehensive income from its subsidiaries and investment at equity in the amount of $53 million. This amount includes a positive variation of $1,032 million in foreign currency translation adjustments, related to the Corporation's indirect investments in Lifeco's foreign operations and in Pargesa, a negative variation in the value of investments classified as available for sale in the amount of negative $830 million and a negative variation of $149 million for cash flow hedges. Included in this amount is $179 million related to GBL's investment in Lafarge, which has, beginning in 2008, been accounted for under the equity method. As a result, the amount related to the investment in Lafarge recorded in other comprehensive income at December 31, 2007 has been reversed.

The decrease in other liabilities is mainly due to the reversal in the fourth quarter of 2008 of the provision for future dilution losses.

Shareholders' Equity

Perpetual preferred shares of the Corporation increased by $175 million in 2008 as a result of the Corporation having issued non-cumulative five-year rate reset First Preferred Shares Series M in November 2008.

Common shareholders' equity was $11,844 million at December 31, 2008, compared with $11,465 million at December 31, 2007. The increase of $379 million is mainly due to:

› a $307 million increase in retained earnings, reflecting primarily net earnings of $1,337 million, less dividends declared of $1,013 million; and

› changes to accumulated other comprehensive income of positive $49 million, including those of the Corporation itself and an increase in contributed surplus of $22 million.

Since January 1, 2008, 120,000 Common Shares have been issued by the Corporation in 2008 pursuant to the Corporation's Employee Stock Option Plan for an aggregate amount of $1 million.

As a result of the above, book value per common share of the Corporation increased to $16.80 at the end of December 2008, compared with $16.26 at the end of 2007.

The Corporation filed a short-form base shelf prospectus, dated November 18, 2008, pursuant to which the Corporation may issue up to an aggregate of $1.5 billion of First Preferred Shares and debt securities, or any combination thereof. This filing provides the Corporation with the flexibility to access debt and equity markets on a timely basis to make changes to the Corporation's capital structure in response to changes in economic conditions and changes in its financial condition.

CASH FLOWS

Cash Flows – Consolidated

	TWELVE MONTHS ENDED DECEMBER 31		THREE MONTHS ENDED DECEMBER 31	
	2008	2007	**2008**	2007
Cash flow from operating activities	**4,375**	4,453	**1,457**	1,504
Cash flow from financing activities	**(1,885)**	2,209	**466**	(345)
Cash flow from investing activities	**(3,609)**	(5,790)	**(2,666)**	(304)
Effect of changes in exchange rates on cash and cash equivalents	**157**	(359)	**131**	(62)
Increase [decrease] in cash and cash equivalents	**(962)**	513	**(612)**	793
Cash and cash equivalents, beginning of period	**5,651**	5,138	**5,301**	4,858
Cash and cash equivalents from discontinued operations, end of period	**–**	(26)	**–**	(26)
Cash and cash equivalents, end of period	**4,689**	5,625	**4,689**	5,625

On a consolidated basis, cash and cash equivalents decreased by $962 million in the twelve-month period ended December 31, 2008, compared with a $513 million increase in the corresponding period in 2007. For the three-month period ended December 31, 2008, cash and cash equivalents decreased by $612 million, compared with a $793 million increase in the corresponding period in 2007.

Operating activities produced a net inflow of $4,375 million in the twelve-month period ended December 31, 2008, compared with a net inflow of $4,453 million in the corresponding period in 2007. For the three-month period ended December 31, 2008, operating activities produced a net inflow of $1,457 million, compared with a net inflow of $1,504 million in the corresponding period of 2007.

Operating activities during the twelve-month and three-month periods ended December 31, 2008, compared to the same periods in 2007, included:

› For the twelve-month period ended December 31, 2008, Lifeco's cash flow from operations was a net inflow of $3,863 million, compared with a net inflow of $3,731 million in the corresponding period of 2007. For the three-month period ended December 31, 2008, Lifeco's cash flow from operations was a net inflow of $1,431 million, compared with a net inflow of $1,302 million in the corresponding period of 2007. Cash provided by operating activities is used primarily to pay policy benefits, policyholder dividends and claims, as well as operating expenses and commissions. Cash flows generated by operations are mainly invested to support future liability cash requirements.

› Operating activities of IGM, before payment of commissions, generated $859 million in the twelve-month period ended December 31, 2008, compared with $1,121 million in the corresponding period of 2007. For the three-month period ended December 31, 2008, operating activities of IGM, before payment of commissions, generated $112 million, compared with $302 million in the corresponding period in 2007. Cash commissions paid were $270 million in the twelve-month period ended December 31, 2008, compared with $348 million in the same period of 2007. For the three-month period ended December 31, 2008, cash commissions paid were $50 million, compared with $74 million in the corresponding period in 2007.

Cash flows from financing activities resulted in a net outflow of $1,885 million in the twelve-month period ended December 31, 2008, compared with a net inflow of $2,209 million in the corresponding period of 2007. For the three-month period ended December 31, 2008, cash flows from financing activities resulted in a net inflow of $466 million, compared with a net outflow of $345 million in the corresponding period in 2007.

Financing activities during the twelve-month and three-month periods ended December 31, 2008, compared to the same periods in 2007, included:

› Dividends paid by the Corporation and its subsidiaries in the twelve-month period ended December 31, 2008 were $1,525 million, compared with $1,340 million in the corresponding period in 2007. For the three-month period ended December 31, 2008, dividends paid on a consolidated basis were $393 million, compared with $348 million in the corresponding period in 2007.

› Repurchases for cancellation by subsidiaries of the Corporation of their common shares amounted to $118 million in the twelve-month period ended December 31, 2008, compared with $72 million in the corresponding period in 2007. During the three-month period ended December 31, 2008, subsidiaries repurchased their common shares for $5 million, compared with $8 million in the corresponding period of 2007.

› Proceeds in the fourth quarter from the issuance of Series M First Preferred Shares by the Corporation for an amount of $175 million.

› During the twelve-month period ended December 31, 2008, subsidiaries of the Corporation issued debt (other than bankers' acceptances) of $658 million (nil in the fourth quarter of 2008), compared with $4,602 million in the corresponding period of 2007 ($898 million in the fourth quarter of 2007, mainly in connection with Lifeco's acquisition of Putnam).

› Proceeds in the twelve-month period ended December 31, 2008 from the issuance of bankers' acceptances were $287 million ($14 million in the fourth quarter of 2008), related to the acquisition by IGM of Saxon Financial Inc.

› During the twelve-month period ended December 31, 2008, subsidiaries of the Corporation repaid debt of $2,318 million, of which $189 million was repaid in the fourth quarter of 2008. Repayments of debt during the twelve-month period ended December 31, 2007 amounted to $1,058 million, of which $907 million was repaid in the fourth quarter of 2007.

Cash flows from investing activities resulted in a net outflow of $3,609 million in the twelve-month period ended December 31, 2008, compared with a net outflow of $5,790 million in the corresponding period of 2007. For the three-month period ended December 31, 2008, cash flows from investing activities resulted in a net outflow of $2,666 million, compared with a net outflow of $304 million in the corresponding period in 2007.

Investing activities during the twelve-month and three-month periods ended December 31, 2008, compared to the same periods in 2007, included:

› Investing activities at Lifeco in the twelve-month period ended December 31, 2008 resulted in a net outflow of $3,292 million, compared with a net outflow of $5,201 million in the corresponding period of 2007. For the three-month period ended December 31, 2008, investing activities at Lifeco resulted in a net outflow of $2,778 million, compared with a net outflow of $239 million in the corresponding period of 2007.

› Included in the cash flows from investing activities for the twelve-month period ended December 31, 2008 were the net proceeds from the disposal by Lifeco of its U.S. healthcare business for an amount of $1,375 million, which occurred in the second quarter.

› Investing activities at IGM resulted in a net outflow of $316 million in the twelve-month period ended December 31, 2008, compared with a net outflow of $589 million in the corresponding period of 2007. For the three-month period ended December 31, 2008, investing activities at IGM resulted in a net inflow of $113 million, compared with a net outflow of $63 million in the corresponding period of 2007.

› Included in cash flows from investing activities as an outflow is the acquisition by IGM of Saxon Financial Inc. for an amount of $265 million (less cash acquired and cash equivalents of $25 million).

Cash flows from activities of Lifeco and IGM are described in their respective MD&As in Parts B and C of this MD&A related to these subsidiaries.

Cash Flows – Corporate

	TWELVE MONTHS ENDED DECEMBER 31		THREE MONTHS ENDED DECEMBER 31	
	2008	2007	**2008**	2007
Cash flow from operating activities				
Net earnings	**1,337**	2,044	**(773)**	532
Earnings from subsidiaries and affiliate not received in cash	**(112)**	(1,140)	**1,237**	(310)
Dilution gain and reversal of provisions	**(210)**		**(210)**	
Other	**13**	21	**(4)**	6
	1,028	925	**250**	228
Cash flow from financing activities				
Dividends paid	**(987)**	(861)	**(254)**	(223)
Issuance of preferred shares	**175**		**175**	
Other	**(4)**	1	**(6)**	-
	(816)	(860)	**(85)**	(223)
Cash flow from investing activities				
Investment in Lifeco	**(400)**		**(400)**	
	(400)	-	**(400)**	-
Increase (decrease) in cash and cash equivalents	**(188)**	65	**(235)**	5
Cash and cash equivalents, beginning of period	**795**	730	**842**	790
Cash and cash equivalents, end of period	**607**	795	**607**	795

Power Financial is a holding company. As such, corporate cash flows from operations, before payment of dividends, are principally made up of dividends received from its subsidiaries and investment at equity and income from investments, less operating expenses, financing charges and income taxes. The ability of Lifeco and IGM, which are also holding companies, to meet their obligations generally and pay dividends depends in particular upon receipt of sufficient funds from their subsidiaries. The payment of interest and dividends by Lifeco's principal subsidiaries is subject to restrictions set out in relevant insurance and corporate laws and regulations, which require that solvency and capital standards be maintained. As well, the capitalization of Lifeco's principal subsidiaries takes into account the views expressed by the various credit rating agencies that provide ratings related to financial strength and other measures relating to those companies. The payment of dividends by IGM's principal subsidiaries is subject to corporate laws and regulations which require that solvency standards be maintained. In addition, certain subsidiaries of IGM must also comply with capital and liquidity requirements established by regulatory authorities.

Dividends declared by Lifeco and IGM in the twelve-month period ended December 31, 2008 on their common shares amounted to \$1.20 and \$2.000 per share, respectively, compared with \$1.06 and \$1.775 per share, respectively, in the corresponding period of 2007.

Pargesa pays its annual dividends in the second quarter. The dividend paid in 2008 amounted to SF2.62 per bearer share, compared with SF2.37 in 2007.

In the twelve-month period ended December 31, 2008, dividends declared on the Corporation's Common Shares amounted to \$1.3325 per share, compared with \$1.1600 per share in the same period in 2007. This represents a 15% increase.

RISK FACTORS

There are certain risks inherent in an investment in the securities of the Corporation and in the activities of the Corporation, including the following, which investors should carefully consider before investing in securities of the Corporation. This description of risks does not include all possible risks, and there may be other risks of which the Corporation is not currently aware.

Power Financial is a holding company that holds substantial interests in the financial services industry through its controlling interest in each of Lifeco and IGM. As a result, investors in Power Financial are subject to the risks attributable to its subsidiaries, including those that Power Financial has as the principal shareholder of Lifeco and IGM. Parts B and C of this MD&A further describe risks related to Lifeco and IGM, respectively.

As a holding company, Power Financial's ability to pay interest and other operating expenses and dividends, to meet its obligations and to complete current or desirable future enhancement opportunities or acquisitions generally depends upon receipt of sufficient dividends from its principal subsidiaries and other investments and its ability to raise additional capital. The likelihood that shareholders of Power Financial will receive dividends will be dependent upon the operating performance, profitability, financial position and creditworthiness of the principal subsidiaries of Power Financial and on their ability to pay dividends to Power Financial. The payment of interest and dividends by certain of these principal subsidiaries to Power Financial is also subject to restrictions set forth in insurance, securities and corporate laws and regulations which require that solvency and capital standards be maintained by such companies. If required, the ability of Power Financial to arrange additional financing in the future will depend in part upon prevailing market conditions as well as business performance of Power Financial and its subsidiaries. Current global financial conditions and recent market events have increased volatility and the resulting tightening of credit has reduced available liquidity and overall economic activity. There can be no assurance that debt or equity financing, the ability to borrow funds or internally generated funds will be available or sufficient to meet or satisfy Power Financial's objectives or requirements or, if the foregoing are available to Power Financial, that they will be on terms acceptable to Power Financial. The inability of Power Financial to access sufficient capital on acceptable terms could have a material adverse effect on Power Financial's business, prospects, dividend paying capability and financial condition and further enhancement opportunities or acquisitions.

The market price for Power Financial's securities may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond Power Financial's control. Economic conditions may adversely affect Power Financial, including fluctuations in foreign exchange, inflation and interest rates, as well as monetary policies, business investment and the health of capital markets in Canada, the United States and Europe. Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities held by the Corporation and its subsidiaries, and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. If such increased levels of volatility and related market turmoil continue, Power Financial's subsidiaries' operations could be adversely impacted and the trading price of Power Financial's securities may be adversely affected.

OFF-BALANCE SHEET ARRANGEMENTS

Securitizations

IGM's liquidity management practices include the periodic sales of mortgages to securitization trusts sponsored by third parties that in turn issue securities to investors. IGM retains servicing responsibilities and certain elements of recourse with respect to credit losses on transferred loans. During 2008, IGM entered into securitization transactions with Canadian bank-sponsored securitization trusts and the Canada Mortgage Bond Program (CMB Program) through its mortgage banking operation, with proceeds of $1,441 million, compared with $1,287 million in 2007. Securitized loans serviced at December 31, 2008 totalled $2,943 million, compared with $2,234 million at December 31, 2007. The fair value of IGM's retained interest was $217 million at December 31, 2008 and $48 million at December 31, 2007.

Through IGM's mortgage banking operations, residential mortgages are funded primarily through sales to third parties, including Canada Mortgage and Housing Corporation (CMHC) or Canadian bank-sponsored securitization trusts, private placements to institutional investors, or placed with Investors Mortgage and Short-Term Income Fund or the intermediary operations of Investors Group Inc., a subsidiary of IGM. During the second quarter of 2008, IGM was approved by CMHC as an issuer of *National Housing Act* Mortgage-Backed Securities and as a seller into the CMB Program. This issuer and seller status provides IGM with additional funding sources for residential mortgages.

Guarantees

In the normal course of their businesses, the Corporation and its subsidiaries may enter into certain agreements, the nature of which precludes the possibility of making a reasonable estimate of the maximum potential amount the guarantor could be required to pay third parties, as some of these agreements do not specify a maximum amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined.

Letters of Credit

In the normal course of its reinsurance business, Lifeco's subsidiaries provide letters of credit (LOC) to other parties or beneficiaries. A beneficiary will typically hold an LOC as collateral in order to secure statutory credit for reserves ceded to or amounts due from Lifeco's subsidiaries. An LOC may be drawn upon demand. If an amount is drawn on an LOC by a beneficiary, the bank issuing the LOC will make a payment to the beneficiary for the amount drawn, and Lifeco's subsidiaries will become obligated to repay this amount to the bank.

Lifeco, through certain of its operating subsidiaries, has provided LOC to both external and internal parties, which are described in Note 28 to the Corporation's Consolidated Financial Statements.

COMMITMENTS/CONTRACTUAL OBLIGATIONS

The following table provides a summary of future consolidated contractual obligations.

					PAYMENTS DUE BY PERIOD
	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	4-5 YEARS	MORE THAN 5 YEARS
Long-term debt [1]	5,006	1	452	373	4,180
Operating leases [2]	849	156	232	158	303
Purchase obligations [3]	216	73	103	40	–
Contractual commitments [4]	337	337	–	–	–
Total	6,408	567	787	571	4,483
Letters of credit [5]					

[1] Please refer to Note 11 to the Corporation's Consolidated Financial Statements for further information.

[2] Includes office space and certain equipment used in the normal course of business. Lease payments are charged to operations in the period of use.

[3] Purchase obligations are commitments to acquire goods and services, essentially related to information services.

[4] Represents commitments by Lifeco. These contractual commitments are essentially commitments of investment transactions made in the normal course of operations, in accordance with its policies and guidelines, which are to be disbursed upon fulfilment of certain contract conditions.

[5] Please refer to Note 28 to the Corporation's Consolidated Financial Statements and to Part B of this MD&A.

FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The following table presents the fair value of the Corporation's financial instruments. Fair value represents the amount that would be exchanged in an arm's-length transaction between willing parties and is best evidenced by a quoted market price, if one exists. Fair values are management's estimates and are generally calculated using market conditions at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and matters of significant judgment (please refer to Note 24 to the Corporation's Consolidated Financial Statements).

AS AT DECEMBER 31		2008		2007
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
ASSETS				
Cash and cash equivalents	**4,689**	**4,689**	5,625	5,625
Investments [excluding real estate]	**97,816**	**97,487**	94,736	95,077
Other financial assets	**14,139**	**14,139**	4,526	4,526
Derivatives assets	**847**	**847**	940	940
Total financial assets	**117,491**	**117,162**	105,827	106,168
LIABILITIES				
Deposits and certificates	**959**	**964**	857	857
Debentures and other borrowings	**5,658**	**5,059**	6,791	7,088
Preferred shares of the Corporation	**300**	**302**	300	313
Preferred shares of subsidiaries	**1,269**	**1,275**	1,303	1,335
Other financial liabilities	**5,340**	**5,340**	5,819	5,819
Derivative liabilities	**1,261**	**1,261**	136	136
Total financial liabilities	**14,787**	**14,201**	15,206	15,548

Derivative Financial Instruments

In the course of their activities, the Corporation and its subsidiaries use derivative financial instruments. When using such derivatives, they only act as limited end-users and not as market-makers in such derivatives.

The use of derivatives is monitored and reviewed on a regular basis by senior management of the companies. The Corporation and its subsidiaries have each established operating policies and processes relating to the use of derivative financial instruments, which in particular aim at:

- prohibiting the use of derivative instruments for speculative purposes;
- documenting transactions and ensuring their consistency with risk management policies;
- demonstrating the effectiveness of the hedging relationships; and
- monitoring the hedging relationship.

There were no major changes to the Corporation's and its subsidiaries' policies and procedures with respect to the use of derivative instruments in 2008. In addition, there has not been a significant change in either the notional amount outstanding (increase from $14,793 million to $15,957 million) or in the exposure to credit risk that represents the market value of those instruments, which are in a gain position (decrease from $990 million to $845 million). See Note 26 of the Corporation's 2008 Consolidated Financial Statements for more information on the type of derivative financial instruments used by the Corporation and its subsidiaries. Please also refer to Parts B and C of this MD&A relating to Lifeco and IGM.

DISCLOSURE CONTROLS AND PROCEDURES

Based on their evaluations as of December 31, 2008, the Chief Executive Officer and the Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures are effective in providing reasonable assurance that (a) material information relating to the Corporation is made known to the Chief Executive Officer and the Chief Financial Officer by others, particularly during the period in which the annual filings are being prepared, and (b) information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Based on their evaluations as of December 31, 2008, the Chief Executive Officer and the Chief Financial Officer have concluded that the Corporation's internal controls over financial reporting are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. During the fourth quarter of 2008, there have been no changes in the Corporation's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

SELECTED ANNUAL INFORMATION

FOR THE YEARS ENDED DECEMBER 31	**2008**	2007	2006
Revenues from continuing operations [1]	**36,500**	28,669	27,937
Operating earnings before other items [2]	**1,974**	2,082	1,802
per share – basic	**2.69**	2.84	2.46
Net earnings	**1,337**	2,044	2,155
per share – basic	**1.79**	2.79	2.96
per share – diluted	**1.78**	2.78	2.94
Earnings from discontinued operations	**503**	148	140
per share – basic	**0.71**	0.21	0.20
per share – diluted	**0.71**	0.21	0.20
Earnings from continuing operations [3]	**834**	1,896	2,015
per share – basic	**1.08**	2.58	2.76
per share – diluted	**1.07**	2.57	2.74
Consolidated assets	**141,518**	130,114	130,486
Consolidated long-term liabilities			
Debentures and other borrowings	**5,658**	6,791	3,430
Shareholders' equity	**13,419**	12,865	11,422
Book value per share	**16.80**	16.26	14.22
Number of common shares outstanding [millions]	**705.0**	704.9	704.8
Dividends per share [declared]			
Common shares	**1.3325**	1.1600	1.0000
First preferred shares			
Series A	**0.8431**	1.0675	1.0076
Series C	**1.3000**	1.3000	1.3000
Series D	**1.3750**	1.3750	1.3750
Series E	**1.3125**	1.3125	1.3125
Series F	**1.4750**	1.4750	1.4750
Series H	**1.4375**	1.4375	1.4375
Series I	**1.5000**	1.5000	1.5000
Series J	**1.1750**	1.1750	1.1750
Series K	**1.2375**	1.2375	1.2375
Series L [4]	**1.2750**	1.2750	0.6262
Series M [5]	–	–	–

[1] Revenues from continuing operations represent consolidated revenues, excluding revenues of Lifeco's U.S. healthcare business.

[2] Operating earnings and operating earnings per share are non-GAAP financial measures. Operating earnings include Power Financial's share of Lifeco's U.S. healthcare business of $31 million, $148 million and $140 million in 2008, 2007 and 2006, respectively.

[3] Earnings from continuing operations represent net earnings, excluding Power Financial's share of Lifeco's U.S. healthcare business.

[4] Issued in August 2006.

[5] Issued in November 2008. There were no dividends declared in 2008.

SUMMARY OF QUARTERLY RESULTS

	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues from continuing operations [1]	**7,135**	4,623	6,061	18,681	9,428	6,894	4,790	7,557
Operating earnings [2] [3] [4]	**434**	459	590	491	500	531	570	482
per share – basic	**0.59**	0.62	0.81	0.67	0.68	0.73	0.78	0.66
Other items [3]	**(1,207)**	(2)	477	95	32	(74)	3	–
per share – basic	**(1.71)**	–	0.68	0.13	0.05	(0.11)	0.01	–
Net earnings	**(773)**	457	1,067	586	532	457	573	482
per share – basic	**(1.12)**	0.62	1.49	0.80	0.73	0.62	0.79	0.66
per share – diluted	**(1.12)**	0.62	1.48	0.80	0.72	0.62	0.78	0.65
Earnings from discontinued operations	–	–	472	31	31	36	40	41
per share – basic	–	–	0.67	0.04	0.04	0.05	0.06	0.06
per share – diluted	–	–	0.67	0.04	0.04	0.05	0.06	0.06
Earnings from continuing operations	**(773)**	457	595	555	501	421	533	441
per share – basic	**(1.12)**	0.62	0.82	0.76	0.69	0.57	0.73	0.60
per share – diluted	**(1.12)**	0.62	0.81	0.76	0.68	0.57	0.72	0.59

[1] Revenues from continuing operations represent consolidated revenues, excluding revenues of Lifeco's U.S. healthcare business.

[2] The contribution from Pargesa to operating earnings includes Pargesa's share of the dividends paid by Total, GDF SUEZ and Suez Environnement (since July 2008), Suez (prior to July 2008) and Pernod Ricard, and Lafarge in 2007. These dividends contribute significantly to Pargesa's operating results. In 2007 and 2008, dividends from Suez were received during the second quarter. In addition, GDF SUEZ declared in the third quarter of 2008 an interim dividend (Pargesa's share: SF78 million) which was recorded by Pargesa in the third quarter. Total and Pernod Ricard pay their dividends in two instalments, in the first and second parts of the year. Starting January 1, 2008, the investment in Lafarge is accounted for by GBL under the equity method; as a result, the contribution from Lafarge to GBL's earnings now consists of GBL's share of Lafarge's net earnings.

[3] In the fourth quarter of 2008, Lifeco recorded charges of $1,432 million related to an impairment charge for goodwill and intangible assets, a tax valuation allowance and restructuring charges. The Corporation's share of these other items is $1,040 million or $1.48 per share.

Also in the fourth quarter of 2008, Pargesa recorded impairment charges on Lafarge, Pernod Ricard and Iberdrola. The Corporation's share of these items is $348 million or $0.49 per share.

In the fourth quarter of 2008, the Corporation recorded non-operating earnings of $210 million or $0.30 per share related to the reversal of provisions for dilution losses and a dilution gain on Lifeco.

In the second quarter of 2008, Lifeco recorded a gain on the sale of its U.S. healthcare business in the amount of $649 million. Power Financial's share of this item is $472 million or $0.67 per share.

In the first quarter of 2008, Lifeco recorded non-recurring items totalling $118 million, consisting of a gain realized in connection with the termination of a long-standing assumption reinsurance agreement for an amount of $176 million and a reserve strengthening in GWL&A for $58 million. Power Financial's share of these two items is $86 million or $0.12 per share.

In the third quarter of 2007, Lifeco recorded a $97 million after-tax provision for certain Canadian retirement plans. Power Financial's share of this provision was $71 million or $0.10 per share.

Other items also include, in the fourth quarter of 2007, the Corporation's share of tax benefits of $15 million, recorded by IGM.

[4] Operating earnings and operating earnings per share are non-GAAP financial measures. Operating earnings include Power Financial's share of Lifeco's U.S. healthcare business, which was sold on April 1, 2008. Earnings from continuing operations represent net earnings, excluding Power Financial's share of Lifeco's U.S. healthcare business.

For a definition of these non-GAAP financial measures, please refer to Basis of Presentation and Summary of Accounting Policies – Non-GAAP Financial Measures.

POWER FINANCIAL CORPORATION

CONSOLIDATED BALANCE SHEETS

As at December 31 [in millions of dollars]	**2008**	2007
Assets		
Cash and cash equivalents	**4,689**	5,625
Investments [Note 4]		
Shares	**5,606**	6,927
Bonds	**66,554**	65,069
Mortgages and other loans	**18,034**	16,423
Loans to policyholders	**7,622**	6,317
Real estate	**3,190**	2,549
	101,006	97,285
Funds held by ceding insurers	**11,447**	1,512
Investment at equity [Note 6]	**2,814**	3,503
Assets of operations held for sale [Note 2]	–	697
Intangible assets [Note 7]	**4,482**	4,946
Goodwill [Note 7]	**8,613**	9,230
Future income taxes [Note 8]	**1,766**	615
Other assets [Note 9]	**6,701**	6,701
	141,518	130,114
Liabilities		
Policy liabilities		
Actuarial liabilities [Note 10]	**97,895**	87,487
Other	**4,732**	4,385
Deposits and certificates	**959**	857
Funds held under reinsurance contracts	**192**	164
Liabilities of operations held for sale [Note 2]	–	428
Debentures and other borrowings [Note 11]	**5,658**	6,791
Preferred shares of the Corporation [Note 15]	**300**	300
Preferred shares of subsidiaries	**1,269**	1,303
Capital trust securities and debentures [Note 12]	**658**	639
Future income taxes [Note 8]	**768**	743
Other liabilities [Note 13]	**7,254**	6,633
	119,685	109,730
Non-controlling interests [Note 14]	**8,414**	7,519
Shareholders' Equity		
Stated capital [Note 15]		
Perpetual preferred shares	**1,575**	1,400
Common shares	**595**	594
Contributed surplus	**91**	69
Retained earnings	**10,811**	10,504
Accumulated other comprehensive income [Note 19]	**347**	298
	13,419	12,865
	141,518	130,114

Approved by the Board of Directors

Director

Director

CONSOLIDATED STATEMENTS OF EARNINGS

For the years ended December 31 [in millions of dollars, except per share amounts]	2008	2007
Revenues		
Premium income [Note 20]	**30,007**	18,753
Net investment income		
Regular net investment income	**6,114**	5,687
Change in fair value on held-for-trading assets	**(5,161)**	(1,098)
	953	4,589
Fee income	**5,540**	5,327
	36,500	28,669
Expenses		
Policyholder benefits, dividends and experience refunds, and change in actuarial liabilities	**26,774**	19,122
Commissions	**2,172**	2,236
Operating expenses	**3,605**	3,199
Financing charges [Note 21]	**438**	408
	32,989	24,965
	3,511	3,704
Share of earnings of investment at equity [Note 6]	**183**	145
Other income (charges), net [Note 22]	**(2,402)**	24
Earnings from continuing operations before income taxes and non-controlling interests	**1,292**	3,873
Income taxes [Note 8]	**16**	938
Non-controlling interests [Note 14]	**442**	1,039
Earnings from continuing operations	**834**	1,896
Earnings from discontinued operations [Note 2]	**503**	148
Net earnings	**1,337**	2,044
Earnings per common share [Note 25]		
– Basic	**1.79**	2.79
– Diluted	**1.78**	2.78

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31 [in millions of dollars]	**2008**	2007
Net earnings	**1,337**	2,044
Other comprehensive income (loss)		
Net unrealized gains (losses) on available-for-sale assets		
Unrealized gains (losses)	**(826)**	163
Income tax on unrealized gains (losses)	**109**	9
Reclassification of realized (gains) losses to net earnings	**(61)**	(143)
Income tax on reclassification of realized (gains) losses to net earnings	**13**	34
Other [Note 19]	**(179)**	–
	(944)	63
Net unrealized gains (losses) on cash flow hedges		
Unrealized gains (losses)	**(322)**	(34)
Income tax on unrealized gains (losses)	**113**	13
Reclassification of realized (gains) losses to net earnings	**(2)**	95
Income tax on reclassification of realized (gains) losses to net earnings	**1**	(26)
	(210)	48
Net unrealized gains (losses) on foreign currency translation	**1,344**	(1,370)
Other comprehensive income (loss) before non-controlling interests	**190**	(1,259)
Non-controlling interests	**(141)**	430
Other comprehensive income (loss)	**49**	(829)
Comprehensive income	**1,386**	1,215

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31 [in millions of dollars]	**2008**	2007
Stated capital – Perpetual preferred shares		
Perpetual preferred shares, beginning of year	**1,400**	1,400
Issue of perpetual preferred shares [Note 15]	**175**	–
Perpetual preferred shares, end of year	**1,575**	1,400
Stated capital – Common shares		
Common shares, beginning of year	**594**	593
Issue of common shares under stock option plan [Note 15]	**1**	1
Common shares, end of year	**595**	594
Contributed surplus		
Contributed surplus, beginning of year	**69**	56
Stock options expense	**29**	20
Non-controlling interests	**(7)**	(7)
Contributed surplus, end of year	**91**	69
Retained earnings		
Retained earnings, beginning of year	**10,504**	9,349
Net earnings	**1,337**	2,044
Dividends to shareholders		
Perpetual preferred shares	**(74)**	(75)
Common shares	**(939)**	(818)
Other, including share issue cost	**(17)**	4
Retained earnings, end of year	**10,811**	10,504
Accumulated other comprehensive income (loss) [Note 19]		
Accumulated other comprehensive income (loss), beginning of year	**298**	1,127
Other comprehensive income (loss)	**49**	(829)
Accumulated other comprehensive income (loss), end of year	**347**	298
Total Shareholders' Equity	**13,419**	12,865

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31 [in millions of dollars]	2008	2007
Operating activities		
Net earnings	**1,337**	2,044
Non-cash charges (credits)		
Increase (decrease) in policy liabilities	**(3,249)**	57
Decrease (increase) in funds withheld by ceding insurers	**1,306**	658
Increase (decrease) in funds held under reinsurance contracts	**50**	65
Amortization and depreciation	**98**	122
Future income taxes	**(641)**	(146)
Change in fair value of financial instruments	**5,128**	1,058
Gain on disposal of business [Note 2]	**(649)**	–
Intangible and goodwill impairment [Note 7]	**2,178**	–
Non-controlling interests	**631**	1,094
Dilution gain	**(97)**	–
Other	**(2,382)**	383
Change in non-cash working capital items	**665**	(882)
	4,375	4,453
Financing activities		
Dividends paid		
By subsidiaries to non-controlling interests	**(537)**	(479)
Perpetual preferred shares	**(75)**	(75)
Common shares	**(913)**	(786)
	(1,525)	(1,340)
Issue of common shares by the Corporation	**1**	1
Issue of perpetual preferred shares by the Corporation	**175**	–
Issue of common shares by subsidiaries	**649**	50
Issue of preferred shares by a subsidiary	**230**	–
Repurchase of common shares by subsidiaries	**(118)**	(72)
Repurchase of preferred shares by subsidiaries	**–**	(53)
Deposits and certificates	**102**	79
Issue of debentures and other borrowings	**945**	4,602
Repayment of debentures and other borrowings	**(2,318)**	(1,058)
Other	**(26)**	–
	(1,885)	2,209
Investment activities		
Bond sales and maturities	**17,669**	24,436
Mortgage loan repayments	**1,952**	1,833
Sale of shares	**2,536**	2,586
Real estate sales	**84**	169
Proceeds from securitizations	**1,441**	1,287
Change in loans to policyholders	**(329)**	(265)
Change in repurchase agreements	**33**	(686)
Acquisition of intangible assets	**(20)**	–
Acquisition of businesses [Note 2]	**(265)**	(4,155)
Disposal of business [Note 2]	**1,375**	–
Investment in bonds	**(19,300)**	(21,848)
Investment in mortgage loans	**(4,866)**	(4,573)
Investment in shares	**(3,010)**	(3,820)
Investment in real estate	**(876)**	(740)
Other	**(33)**	(14)
	(3,609)	(5,790)
Effect of changes in exchange rates on cash and cash equivalents	**157**	(359)
Increase in cash and cash equivalents	**(962)**	513
Cash and cash equivalents from continuing and discontinued operations, beginning of year	**5,651**	5,138
Cash and cash equivalents from discontinued operations, end of year	**–**	(26)
Cash and cash equivalents from continuing operations, end of year	**4,689**	5,625
Supplemental cash flow information		
Income taxes paid	**1,553**	1,245
Interest paid	**461**	441

POWER FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(ALL TABULAR AMOUNTS ARE IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE NOTED.)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements of Power Financial Corporation (the Corporation) have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Corporation and its subsidiaries.

The principal subsidiaries of the Corporation are:

(a) Great-West Lifeco Inc. (Lifeco) (direct interest of 68.7% (2007 – 70.4%)), whose major operating subsidiary companies are Great-West Life & Annuity Insurance Company (GWL&A), London Life Insurance Company (London Life), The Canada Life Assurance Company (Canada Life), The Great-West Life Assurance Company (Great-West Life) and Putnam Investments, LLC (Putnam).

(b) IGM Financial Inc. (IGM), (direct interest of 56.4% (2007 – 56.0%)), whose major operating subsidiary companies are Investors Group Inc. (Investors Group) and Mackenzie Financial Corporation (Mackenzie).

(c) IGM holds 4.0% (2007 – 4.2%) of the common shares of Lifeco, and Great-West Life holds 3.5% (2007 – 3.5%) of the common shares of IGM.

The Corporation also holds a 50% (2007 – 50%) interest in Parjointco N.V. (Parjointco). Parjointco holds a 54.1% (2007 – 54.1%) equity interest in Pargesa Holding SA (Pargesa). The Corporation accounts for its investment in Parjointco, using the equity method.

USE OF ESTIMATES AND MEASUREMENT UNCERTAINTY

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in those financial statements and accompanying notes. In particular, the valuation of goodwill and intangible assets, actuarial liabilities, income taxes, deferred selling commissions, pension plans and other post-retirement benefits are key components of the financial statements requiring management to make estimates. The reported amounts and note disclosures are determined using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action.

The results of the Corporation reflect management's judgments regarding the impact of prevailing global credit, equity and foreign exchange market conditions. Financial instrument carrying values necessarily reflect the illiquidity of the markets and the liquidity premiums embedded in the market pricing methods the Corporation relies upon.

The estimation of actuarial liabilities relies upon investment credit ratings. Lifeco's practice is to use third-party independent credit ratings where available. Credit rating changes may lag developments in the current environment. Subsequent credit rating adjustments will impact actuarial liabilities.

In addition to Lifeco's direct investments in certain financial institutions, Lifeco has contractual business relationships with these financial institutions. Given the current uncertainty associated with these entities, normal business conditions do not prevail and Lifeco's contractual business relationships may be impacted.

Given the uncertainty surrounding the continued volatility and the general lack of liquidity in financial markets, the actual financial results could differ from those estimates.

POWER FINANCIAL CORPORATION

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CHANGES IN ACCOUNTING POLICIES

Capital Disclosures On January 1, 2008, the Corporation adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535, *Capital Disclosures*. The section establishes standards for disclosing information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. The new requirements are for disclosure only and did not impact financial results of the Corporation.

Financial Instruments Disclosure and Presentation On January 1, 2008, the Corporation adopted CICA Handbook Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*. These sections replace existing Section 3861, *Financial Instruments – Disclosure and Presentation*. Presentation standards are carried forward unchanged. Disclosure standards are enhanced and expanded to complement the changes in accounting policy adopted in accordance with Section 3855, *Financial Instruments – Recognition and Measurement,* during 2007.

REVENUE RECOGNITION

For Lifeco, premiums for all types of insurance contracts and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due and collection is reasonably assured. When premiums are recognized, actuarial liabilities are computed with the result that benefits and expenses are matched with such revenue.

Lifeco's premium revenues, total paid or credited to policyholders and policy liabilities are all shown net of reinsurance amounts ceded to, or including amounts assumed from, other insurers.

For Lifeco, fee income is recognized when the service is performed, collectible and the amount can be reasonably estimated. Fee income primarily includes fees earned from the management of segregated fund assets, proprietary mutual funds assets, fees earned on the administration of administrative services only (ASO) Group health contracts and fees earned from management services.

For IGM, management fees are based on the net asset value of mutual fund assets under management and are recognized on an accrual basis when the service is performed. Administration fees are also recognized on an accrual basis when the service is performed. Distribution revenues derived from mutual fund and securities transactions are recognized on a trade-date basis. Distribution revenues derived from insurance and other financial services transactions are recognized on an accrual basis.

Investment income is recognized on an accrual basis.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash, current operating accounts, overnight bank and term deposits with original maturity of three months or less, fixed-income securities with an original term to maturity of three months or less, as well as highly liquid investments with short-term maturities that are readily convertible to known amounts of cash. The carrying value of cash and cash equivalents approximates fair value.

INVESTMENTS

Investments are classified as held for trading, available for sale, held to maturity, loans and receivables or as non-financial instruments based on management's intention or characteristics of the investment.

Investments in bonds and shares normally actively traded on a public market are designated or classified as either held for trading or as available for sale on a trade-date basis, based on management's intention. Held-for-trading investments are recognized at fair value on the balance sheets with realized and unrealized gains and losses reported in the statements of earnings. Available-for-sale investments are recognized at fair value on the balance sheets with unrealized gains and losses recorded in other comprehensive income. Realized gains and losses are reclassified from other comprehensive income and recorded in the statements of earnings when the available-for-sale investment is sold. Interest income earned on both held-for-trading and available-for-sale bonds is recorded as investment income in the statements of earnings.

Investments in equity instruments where a market value cannot be measured reliably that are classified as available for sale are carried at cost. Investments in shares for which the Corporation exerts significant influence over but does not control are accounted for using the equity method of accounting (see Note 6).

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in mortgages and bonds not normally actively traded on a public market, and other loans are classified as loans and receivables and are carried at amortized cost net of any allowance for credit losses. Interest income earned and realized gains and losses on the sale of investments classified as loans and receivables are recorded in the statements of earnings and included in net investment income.

Investments in real estate are carried at cost net of write-downs and allowances for loss, plus a moving average market value adjustment of $213 million ($210 million in 2007) in the Consolidated Balance Sheets. The carrying value is adjusted towards market value at a rate of 3% per quarter. Net realized gains and losses are included in deferred net realized gains on the balance sheets and are deferred and amortized to income at a rate of 3% per quarter on a declining balance basis.

Fair Value Measurement Financial instrument carrying values currently reflect the illiquidity of the markets and the liquidity premiums embedded in the market pricing methods the Corporation relies upon.

Fair values for bonds classified as held for trading or available for sale are determined using quoted market prices. Where prices are not quoted in a normally active market, fair values are determined by valuation models primarily using observable market data inputs. Market value for bonds and mortgages classified as loans and receivables are determined by discounting expected future cash flows using current market rates.

Fair values for public shares are generally determined by the last bid price for the security from the exchange where it is principally traded. Fair values for shares for which there is no active market are determined by discounting expected future cash flows. Where market value can not be measured reliably, fair value is estimated to be equal to cost. Market values for all real estate are determined using independent appraisal services and include management adjustments for material changes in property cash flows, capital expenditures or general market conditions in the interim period between appraisals.

Impairment Investments are reviewed regularly on an individual basis to determine impairment status. The Corporation considers various factors in the impairment evaluation process, including, but not limited to, the financial condition of the issuer, specific adverse conditions affecting an industry or region, decline in fair value not related to interest rates, bankruptcy or defaults and delinquency in payments of interest or principal. Investments are deemed to have an other than temporary impairment when there is no longer reasonable assurance of timely collection of the full amount of the principal and interest due or the Corporation does not have the intent to hold the investment until the value has recovered. The market value of an investment is not a definitive indicator of impairment, as it may be significantly influenced by other factors, including the remaining term to maturity and liquidity of the asset. However, market price must be taken into consideration when evaluating other than temporary impairment.

For impaired mortgages and bonds classified as loans and receivables, provisions are established or write-downs made to adjust the carrying value to the net realizable amount. Wherever possible the fair value of collateral underlying the loans or observable market price is used to establish net realizable value. For impaired available-for-sale loans, recorded at fair value, the accumulated loss recorded in accumulated other comprehensive income is reclassified to net investment earnings. Once an impairment loss on an available-for-sale asset is recorded to earnings it is not reversed. All gains and losses on bonds classified or designated as held for trading are already recorded in earnings. As well, when determined to be impaired, interest is no longer accrued and previous interest accruals are reversed.

Transaction costs are expensed as incurred for financial instruments classified or designated as held for trading. Transaction costs for financial assets classified as available for sale or loans and receivables are added to the value of the instrument at acquisition and taken into net earnings using the effective interest rate method. Transaction costs for financial liabilities classified as other than held for trading are recognized immediately in net earnings.

Trade-date accounting is used to account for all regular-way purchase or sale of investments traded on a public market and derivative instruments. Settlement-date accounting is used to account for all regular-way purchase or sale of investments not traded on a public market.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

SECURITIZATIONS

IGM periodically sells residential mortgages through Canada Mortgage and Housing Corporation (CMHC) or Canadian bank-sponsored securitization trusts that in turn issue securities to investors. During the second quarter of 2008, IGM commenced utilization of the National Housing Act Mortgage-Backed Securities program (NHA MBS). NHA MBS are sold to a trust that issues securities to investors through the Canada Mortgage Bond Program (CMB Program), which is sponsored by CMHC. IGM retains servicing responsibilities and certain elements of recourse with respect to credit losses on transferred loans. IGM also sells NHA-insured mortgages through the issuance of mortgage-backed securities.

Transfers of loans are accounted for as sales provided that control over the transferred loans has been surrendered and consideration other than beneficial interests in the transferred loans has been received in exchange. The loans are removed from the balance sheets and a gain or loss is recognized in earnings immediately based on the carrying value of the loans transferred. The carrying value is allocated between the assets transferred and the retained interests in proportion to their fair values at the date of transfer. To obtain the fair value of IGM's retained interests, quoted market prices are used, if available. However, since quotes are generally not available for retained interests, the estimated fair value is based on the present value of future expected cash flows using management's best estimates of key assumptions such as prepayment rates, excess spread, expected credit losses and discount rates commensurate with the risks involved. Retained interests are classified as held for trading and any realized or unrealized gains and losses are recorded in net investment income in the statements of earnings.

IGM continues to service the loans transferred. As a result, a servicing liability is recognized and amortized over the expected term of the transferred loans as servicing fees.

For all sales of loans, the gains or losses and the servicing fee revenue are reported in net investment income in the statements of earnings. The retained interests in the securitized loans are recorded in other assets and the servicing liability is recorded in other liabilities on the balance sheets.

FIXED ASSETS

Fixed assets, which are included in other assets, are recorded at cost less accumulated amortization computed on a straight-line basis over their estimated useful lives, which vary from three to 50 years. Amortization of fixed assets included in the Consolidated Statements of Earnings amounted to $82 million ($110 million in 2007). Fixed assets are tested for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

DEFERRED SELLING COMMISSIONS

Commissions paid by IGM on the sale of certain mutual funds are deferred and amortized over a maximum period of seven years. Commissions paid on the sale of deposits are deferred and amortized over a maximum amortization period of five years.

GOODWILL AND INTANGIBLE ASSETS

Goodwill represents the excess of purchase consideration over the fair value of net assets acquired. Intangible assets represent finite life and indefinite life intangible assets of acquired subsidiaries of the Corporation. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives, for a period not exceeding 30 years. The Corporation tests goodwill and indefinite life intangible assets for impairment using a two-step fair value-based test annually, and when an event or change in circumstances indicates that the asset might be impaired. Goodwill and intangible assets are written down when impaired to the extent that the carrying value exceeds the estimated fair value.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment Testing – Goodwill In the first test, goodwill is assessed for impairment by determining whether the fair value of the reporting unit to which the goodwill is associated is less than its carrying value. When the fair value of the reporting unit is less than its carrying value, the second test compares the fair value of the goodwill in that reporting unit to its carrying value. If the fair value of goodwill is less than its carrying value, goodwill is considered to be impaired and a charge for impairment is recognized immediately. The fair value of the reporting units is derived from internally developed valuation models consistent with those used when the Corporation is acquiring businesses, using a market or income approach. The discount rates used are based on an industry weighted cost of capital and consider the risk-free rate, market equity risk premium, size premium and operational risk premium for possible variations from projections.

Impairment Testing – Indefinite Life Intangibles The fair value of intangible assets for customer contracts, the shareholder portion of acquired future participating account profits and certain property leases, and mutual fund management contracts, are estimated using an income approach as described for goodwill above. The fair value of brands and trademarks is estimated using a relief-from-royalty approach using the present value of expected after-tax royalty cash flows through licensing agreements.

ACTUARIAL LIABILITIES

Actuarial liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commissions, and policy administrative expenses for all insurance and annuity policies in force with Lifeco. The Appointed Actuaries of Lifeco's subsidiary companies are responsible for determining the amount of the actuarial liabilities to make appropriate provision for Lifeco's obligations to policyholders. The Appointed Actuaries determine the actuarial liabilities using generally accepted actuarial practices, according to standards established by the Canadian Institute of Actuaries. The valuation uses the Canadian Asset Liability Method (CALM). This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment. Actuarial liabilities are discussed in Note 10.

FINANCIAL LIABILITIES

Financial liabilities, other than actuarial liabilities and certain preferred shares, are classified as other liabilities. Other liabilities are initially recorded on the balance sheets at fair value and subsequently carried at amortized cost using the effective interest rate method with amortization expense recorded in the statements of earnings.

Lifeco has designated certain preferred shares as held for trading with changes in fair value reported in the statements of earnings.

STOCK-BASED COMPENSATION PLANS

The fair value-based method of accounting is used for the valuation of compensation expense for options granted to employees. Compensation expense is recognized over the period that the stock options vest, with a corresponding increase in contributed surplus. When the stock options are exercised, the proceeds, together with the amount recorded in contributed surplus, are added to the stated capital of the entity issuing the corresponding shares.

REPURCHASE AGREEMENTS

Lifeco enters into repurchase agreements with third-party broker-dealers in which Lifeco sells securities and agrees to repurchase substantially similar securities at a specified date and price. Such agreements are accounted for as investment financings.

POWER FINANCIAL CORPORATION

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation and its subsidiaries use derivative products as risk management instruments to hedge or manage asset, liability and capital positions, including revenues. The Corporation's policy guidelines prohibit the use of derivative instruments for speculative trading purposes.

All derivatives, including those that are embedded in financial and non-financial contracts that are not closely related to the host contracts, are recorded at fair value on the balance sheets in other assets and other liabilities. The method of recognizing unrealized and realized fair value gains and losses depends on whether the derivatives are designated as hedging instruments. For derivatives that are not designated as hedging instruments, unrealized and realized gains and losses are recorded in net investment income on the statements of earnings. Non-qualifying derivatives or derivatives not designated as hedges continue to be utilized on a basis consistent with the risk management policies of the Corporation and are monitored by the Corporation for effectiveness as economic hedges even if specific hedge accounting requirements are not met. For derivatives designated as hedging instruments, unrealized and realized gains and losses are recognized according to the nature of the hedged item.

To qualify for hedge accounting, the relationship between the hedged item and the hedging instrument must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. If these conditions are not met, then the relationship does not qualify for hedge accounting treatment and both the hedged item and the hedging instrument are reported independently, as if there was no hedging relationship.

Where a hedging relationship exists, the Corporation documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking derivatives that are used in hedging transactions to specific assets and liabilities on the balance sheet or to specific firm commitments or transactions. The Corporation also assesses, both at the hedge's inception and on an ongoing basis, whether derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items. Hedge effectiveness is reviewed quarterly through a combination of critical terms matching and correlation testing.

For fair value hedges, changes in fair value of both the hedging instrument and the hedged item are recorded in net investment income and consequently any ineffective portion of the hedge is recorded immediately in net investment income.

For cash flow hedges, the effective portion of the changes in fair value of the hedging instrument are recorded in the same manner as the hedged item in either net investment income or other comprehensive income, while the ineffective portion is recognized immediately in net investment income. Gains and losses that accumulate in other comprehensive income are recorded in net investment income in the same period the hedged item affects net earnings. Gains and losses on cash flow hedges are immediately reclassified from other comprehensive income to net investment income if and when it is probable that a forecasted transaction is no longer expected to occur.

Foreign exchange forward contracts are used to hedge net investment in foreign operations. Changes in the fair value of these hedges are recorded in accumulated other comprehensive income. Hedge accounting is discontinued when the hedging no longer qualifies for hedge accounting.

IGM also enters into total return swaps to manage its exposure to fluctuations in the total return of its common shares related to deferred compensation arrangements. These swap agreements require the periodic exchange of net contractual payments without the exchange of the notional principal amounts on which the payments are based. These instruments are not designated as hedges. Changes in fair value are recorded in operating expenses in the statements of earnings.

Derivative financial instruments used by the Corporation and its subsidiaries are summarized in Note 26.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FOREIGN CURRENCY TRANSLATION

The Corporation follows the current rate method of foreign currency translation for its net investments in self-sustaining foreign operations. Under this method, assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date and all income and expenses are translated at an average of daily rates. Unrealized foreign currency translation gains and losses on the Corporation's net investment in its self-sustaining foreign operations are presented separately as a component of other comprehensive income. Unrealized gains and losses are recognized proportionately in earnings in the statements of earnings when there has been a net permanent disinvestment in the foreign operations.

All other assets and liabilities denominated in foreign currency are translated into Canadian dollars at exchange rates prevailing at the balance sheet date for monetary items and at exchange rates prevailing at the transaction dates for non-monetary items. Realized and unrealized exchange gains and losses are included in net investment income. These are not material to the financial statements of the Corporation.

PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

The Corporation and its subsidiaries maintain defined benefit pension plans as well as defined contribution pension plans for certain employees and advisers.

The plans provide pension based on length of service and final average earnings. The benefit obligation is actuarially determined and accrued using the projected benefit method pro-rated on service. Pension charge or credit consists of the aggregate of the actuarially computed cost of pension benefits provided in respect of the current year's service, imputed interest on the accrued benefit obligation less expected returns on plan assets which are valued at market value. Past service costs, transitional assets and transitional obligations are amortized over the expected average remaining service life of the employee/adviser group. For the most part, actuarial gains or losses in excess of the greater of 10% of the beginning-of-year plan assets or accrued benefit obligation are amortized over the expected average remaining service life of the employee/adviser group. The cost of pension benefits is charged to earnings using the projected benefit method pro-rated on services.

The Corporation and its subsidiaries also have unfunded supplementary pension plans for certain executives. Pension expense related to current services is charged to earnings in the period during which the services are rendered.

In addition, the Corporation and its subsidiaries provide certain post-retirement healthcare, dental, and life insurance benefits to eligible retirees, employees, advisers and their dependents. The current cost of post-retirement health, dental and life benefits is charged to earnings using the projected benefit method pro-rated on services.

LOANS TO POLICYHOLDERS

Loans to policyholders are shown at their unpaid balance and are fully secured by the cash surrender values of the policies. The carrying value of loans to policyholders approximates fair value.

FUNDS HELD BY CEDING INSURERS / FUNDS HELD UNDER REINSURANCE CONTRACTS

Under certain forms of reinsurance contracts, it is customary for the ceding insurer to retain possession of the assets supporting the liabilities ceded. Lifeco records an amount receivable from the ceding insurer or payable to the reinsurer representing the premium due. Investment revenue on these funds withheld is credited by the ceding insurer.

INCOME TAXES

The Corporation follows the liability method in accounting for income taxes, whereby future income tax assets and liabilities reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases. Future income tax assets and liabilities are measured based on the enacted or substantively enacted tax rates which are anticipated to be in effect when the temporary differences are expected to reverse.

POWER FINANCIAL CORPORATION

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

EARNINGS PER SHARE

Basic earnings per share is determined by dividing net earnings available to common shareholders by the average number of common shares outstanding for the year. Diluted earnings per share is determined using the same method as basic earnings per share, except that the average number of common shares outstanding includes the potential dilutive effect of outstanding stock options granted by the Corporation, as determined by the treasury stock method.

COMPARATIVE FIGURES

Certain of the 2007 amounts presented for comparative purposes have been reclassified to conform with the presentation adopted in the current year.

FUTURE ACCOUNTING CHANGES

Goodwill and Intangible Assets On January 1, 2009, the Corporation will adopt CICA Handbook Section 3064, *Goodwill and Intangible Assets*. This standard contains revised guidance for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this standard is not expected to have a significant impact on the Corporation's financial position or results of operations.

International Financial Reporting Standards The Canadian Accounting Standards Board has announced that Canadian GAAP will be replaced by International Financial Reporting Standards (IFRS), as published by the International Accounting Standards Board. Publicly accountable enterprises will be required to adopt IFRS on or by January 1, 2011. The Corporation will issue its initial Consolidated Financial Statements under IFRS, including comparative information, for the quarter ended March 31, 2011.

Business Combinations In January 2009, the CICA issued Handbook Section 1582, *Business Combinations*. This new section will be applicable to business combinations for which the acquisition date is on or after the Corporation's interim and fiscal year beginning January 1, 2011. Early adoption is permitted. This section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. The Corporation has not yet determined the impact of the adoption of this new section on the Consolidated Financial Statements.

Consolidated Financial Statements In January 2009, the CICA issued Handbook Section 1601, *Consolidated Financial Statements*. This new section will be applicable to financial statements relating to the Corporation's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for the preparation of consolidated financial statements. The Corporation has not yet determined the impact of the adoption of this new Section on the Consolidated Financial Statements.

Non-Controlling Interests In January 2009, the CICA issued Handbook Section 1602, *Non-Controlling Interest*. This new section will be applicable to financial statements relating to the Corporation's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Corporation has not yet determined the impact of the adoption of this new section on the Consolidated Financial Statements.

NOTE 2. ACQUISITIONS AND DISPOSAL

(a) On October 22, 2008, Great-West Life entered into an agreement with Fidelity Investments Canada ULC (Fidelity) whereby Fidelity will transition its Canadian group retirement and savings plan record-keeping business to Great-West Life, representing $2.2 billion in assets under administration. The financial statements of the Corporation do not include the assets, liabilities, deposits and withdrawals or claims payments related to this business, however Lifeco will earn fee and other income from it.

(b) On September 25, 2008, Mackenzie acquired 95.3% of the issued and outstanding shares of Saxon Financial Inc. (Saxon), a Canadian investment management company. The acquisition was by way of a takeover bid. Mackenzie acquired the remaining Saxon common shares during the fourth quarter under the compulsory acquisition provisions of the *Business Corporations Act* (Ontario). Total cash consideration was $290 million including transaction and other related costs.

The acquisition has been accounted for by the purchase method and the results of Saxon's operations have been included in the Consolidated Financial Statements from the date of acquisition.

The following table summarizes the fair value of the assets acquired and liabilities assumed at the date of acquisition.

Fair value of assets acquired	
Cash and cash equivalents	25
Securities	11
Management contracts	39
Institutional contracts	48
Other assets	7
	130
Less fair value of liabilities assumed	
Other liabilities	35
Future income tax liability	7
	42
Fair value of net assets acquired	88
Goodwill	202
Total purchase consideration	290

Included in other liabilities are restructuring costs of $18 million related to the acquisition.

(c) On April 1, 2008, GWL&A completed the sale of its healthcare business, Great-West Healthcare. As part of the transaction, GWL&A received US$1.5 billion in gross proceeds and approximately US$750 million representing the amount of equity invested in the healthcare business was made available for other purposes. The sale proceeds and the equity invested were applied to outstanding short-term credit facilities and a term loan (refer to Note 11).

As a result of the sale, a net gain of $1,025 million ($649 million after tax) was recorded in earnings from discontinued operations in the Consolidated Statements of Earnings. The gain is net of a charge of $329 million ($208 million after tax) as a result of costs associated with the sale. In accordance with CICA Handbook Section 3475, *Disposal of Long-lived Assets and Discontinued Operations,* the operating results and assets and liabilities of the healthcare business have been presented as discontinued operations in the Consolidated Financial Statements of the Corporation.

NOTE 2. ACQUISITIONS AND DISPOSAL (continued)

After-tax net earnings of the healthcare business presented as discontinued operations in the Consolidated Statements of Earnings is composed of the following:

	2008	2007
Revenues		
Premium income	**184**	983
Net investment income	**11**	81
Fee income	**164**	765
Gain on sale	**1,025**	–
	1,384	1,829
Expenses		
Policyholder benefits, dividends and experience refunds and change in actuarial liabilities	**151**	851
Other	**145**	689
Income taxes	**396**	86
Earnings from discontinued operations before non-controlling interest	**692**	203
Non-controlling interest	**189**	55
Earnings from discontinued operations	**503**	148

As a result of the sale of its healthcare business, GWL&A recognized a charge of $58 million after-tax relating to the strengthening of reserves in its continuing operations.

On the Consolidated Balance Sheets, assets and liabilities of operations held for sale are composed of the following:

	2008	2007
Assets		
Bonds	–	241
Cash and cash equivalents	–	26
Goodwill	–	47
Intangible assets	–	11
Other assets	–	372
Assets of operations held for sale	–	697
Liabilities	–	
Policy liabilities	–	248
Other liabilities	–	180
Liabilities of operations held for sale	–	428

As of April 1, 2008, all of the assets and liabilities of operations held for sale have been sold.

(d) On August 3, 2007, Lifeco acquired the asset management business of Putnam Investments Trust (Putnam), and Great-West Life and Canada Life acquired Putnam's 25% interest in T.H. Lee Partners (T.H. Lee), from Marsh & McLennan Companies Inc., representing an aggregate transaction value of approximately $4.2 billion, including transaction costs. Putnam offers investment management products and services, mainly in the United States. Financing of the transaction is described in Note 11.

NOTE 2. ACQUISITIONS AND DISPOSAL (continued)

The initial allocation of the purchase price, which was finalized in 2008, is summarized as follows:

Value of assets acquired	
Cash and certificates of deposit	74
Stocks	441
Other assets	1,827
	2,342
Value of liabilities assumed	
Other liabilities	1,629
Non-controlling interests	2
	1,631
Fair value of net assets acquired	711
Total purchase consideration	
Cash	4,143
Transaction and related costs, net of income taxes	91
	4,234
Goodwill and intangible assets on acquisition	3,523
Finite life intangibles	184
Indefinite life intangibles	2,388
Goodwill	951
Goodwill and intangible assets on acquisition	3,523

Included in other liabilities assumed are accruals for Putnam costs of $154 million related to planned restructuring and exit activities involving operations and systems, compensation and facilities costs (refer to Note 3).

Results of Putnam are included in the Consolidated Statements of Earnings from the date of acquisition.

(e) On July 5, 2007, Canada Life acquired all of the outstanding common shares of Crown Life Insurance Company (Crown Life) for cash consideration of $118 million, including transaction costs. The acquisition was pursuant to the terms of the 1999 acquisition of the majority of the insurance operation of Crown Life by Canada Life.

The acquisition resulted in an initial increase in invested assets of $459 million, an increase in other assets of $24 million, an increase in policyholder liabilities of $336 million, an increase in other liabilities of $48 million, and estimated goodwill of $19 million.

Results of Crown Life are included in the Consolidated Statements of Earnings from the date of acquisition.

(f) On May 31, 2007, GWL&A acquired an 80% equity interest in Benefits Management Corporation (BMC). The assets acquired, liabilities assumed and Lifeco's equity interest in the results of BMC's operations have been included in the Consolidated Financial Statements since that date. The acquisition added approximately 90,000 members to Lifeco's medical membership. BMC's principal subsidiary, Allegiance Benefit Management, Inc., is a Montana-based third-party administrator of employee health plans. BMC's business was sold in 2008 as part of the sale of Great-West Healthcare.

NOTE 3. RESTRUCTURING COSTS

Following the acquisition of Putnam on August 3, 2007, Lifeco developed a plan to restructure and exit certain operations of Putnam. Lifeco expects the restructuring to be substantially completed by the end of 2009. Costs of $184 million (US$175 million) are expected to be incurred as a result by the U.S. operating segment and consist primarily of restructuring and exit activities involving operations and systems, compensation and facilities costs. Accrued restructuring costs are included in other liabilities in the balance sheets and restructuring charges are included in the statements of earnings. The costs include approximately $154 million (US$146 million) that was recognized as part of the purchase equation of Putnam and costs of approximately $30 million (US$29 million) will be charged to earnings as incurred.

The following details the amount and status of restructuring program costs:

	Expected total costs	Amounts utilized - 2007	Amounts utilized - 2008	Balance December 31, 2008
Compensation costs	133	(27)	**(76)**	**30**
Exiting and consolidating operations	22	(6)	**(5)**	**11**
Eliminating duplicate systems	29	(1)	–	**28**
	184	(34)	**(81)**	**69**
Accrued on acquisition	154	(34)	**(81)**	**39**
Expense as incurred	30	–	–	**30**
	184	(34)	**(81)**	**69**

During the fourth quarter of 2008, Lifeco expanded its original restructuring plans for its subsidiary Putnam to include a broader restructuring of its business. This expanded restructuring plan is intended to clear up complexities, better focus Putnam's service and distribution in core markets, respond to the impact of financial market conditions on assets and revenues, and build a culture that rewards excellence. It is expected to be completed in two phases. The first phase included a restructuring of Lifeco's equity investment unit including consolidating fund offerings, emphasizing fundamental research, vesting full authority and responsibility with individual fund managers, and realigning manager incentives. The second phase will include the restructuring of Putnam's operations, distribution, and other areas. The total additional restructuring expenses associated with the expanded plan are $70 million (US$58 million) and are reflected in other income (charges), net in the Consolidated Statements of Earnings.

NOTE 4. INVESTMENTS

(a) Carrying values and estimated market values of investments are as follows:

December 31, 2008	Market value		Amortized cost		Total	
	Available for sale	Held for trading	Loans and receivables	Non-financial instruments	Carrying value	Market value
Shares	**1,953**	**3,653**	–	–	**5,606**	**5,606**
Bonds	**5,645**	**51,201**	**9,708**	–	**66,554**	**66,096**
Mortgages and other loans	–	–	**18,034**	–	**18,034**	**18,163**
Loans to policyholders	–	–	**7,622**	–	**7,622**	**7,622**
Real estate	–	–	–	**3,190**	**3,190**	**3,055**
	7,598	**54,854**	**35,364**	**3,190**	**101,006**	**100,542**

December 31, 2007	Market value		Amortized cost		Total	
	Available for sale	Held for trading	Loans and receivables	Non-financial instruments	Carrying value	Market value
Shares	2,136	4,791	–	–	6,927	6,927
Bonds	4,045	52,224	8,800	–	65,069	65,276
Mortgages and other loans	–	–	16,423	–	16,423	16,557
Loans to policyholders	–	–	6,317	–	6,317	6,317
Real estate	–	–	–	2,549	2,549	2,844
	6,181	57,015	31,540	2,549	97,285	97,921

During the fourth quarter, Lifeco changed its pricing methodology for monoline wrapped, asset-backed securities backed by prime home improvement loans which are held by its U.S. subsidiary GWL&A. Lifeco concluded that an internal model utilizing asset-backed index spread vs. an external pricing source utilizing credit default swap spread assumptions, would result in a better measurement of fair value for securities. Utilizing internal models for these securities, which have a fair market value of $454 million, resulted in a decrease to unrealized losses in the amount of $157 million when compared to the external pricing source. The use of internal valuation models did not affect Lifeco's operations, liquidity or capital resources during the period.

(b) Included in investments are the following:

(i) Impaired investments for Lifeco

	2008	2007
Bonds	**46**	(1)
Mortgages loans	**10**	(10)
	56	(11)

Impaired investments reflect gross amounts of $271 million ($42 million in 2007) reduced by other than temporary loss amounts of $215 million ($53 million in 2007). Included in the other than temporary loss amounts are portfolio provisions of $19 million ($27 million in 2007).

(ii) The allowance for credit losses and changes in the allowance for credit losses are as follows:

	2008	2007
Balance, beginning of year	**61**	82
Net provisions (recoveries) for credit losses – in year	**4**	(10)
Write-offs, net of recoveries	**(7)**	(1)
Other (including foreign exchange rate change)	**10**	(10)
Balance, end of year	**68**	61

For Lifeco, the allowance for credit losses is supplemented by the provision for future credit losses included in actuarial liabilities.

(iii) Also included in investments are modified/restructured loans of $18 million ($8 million in 2007) that are performing in accordance with their current terms.

NOTE 5. SECURITIZATIONS

IGM securitizes residential mortgages through CMHC or Canadian bank-sponsored securitization trusts. During the second quarter of 2008, IGM began issuing NHA MBS which are sold to a trust that issues securities to investors through the CMHC-sponsored CMB Program. Pre-tax gains and losses on the sale of mortgages are reported in net investment income in the Consolidated Statements of Earnings. Securitization activities for the years ended December 31, 2008 and 2007 were as follows:

	2008	2007
Residential mortgages securitized	**1,451**	1,299
Net cash proceeds	**1,441**	1,287
Fair value of retained interest	**64**	26
Pre-tax gain on sales	**36**	5

IGM's retained interest in the securitized loans includes cash reserve accounts and rights to future excess spread. This retained interest is subordinated to the interests of the related CMHC or Canadian bank-sponsored securitizations trusts (CP conduits) and NHA MBS holders (the purchasers). The purchasers do not have recourse to IGM's other assets for any failure of the borrowers to pay when due.

The key economic assumptions used to value the retained interests at the date of securitization issuances for CMHC or Canadian bank-sponsored securitization trusts transactions completed during 2008 and 2007 were as follows:

	2008	2007
Weighted-average		
Remaining service life (in years)	**4.5**	4.3
Excess spread	**1.09%**	0.51%
Prepayment rate	**15.00%**	15.00%
Discount rate	**4.14%**	5.11%
Servicing fees	**0.25%**	0.25%
Expected credit losses	**0.01%**	0.01%

At December 31, 2008, the fair value of the total retained interests was $217 million ($48 million in 2007). The sensitivity to immediate 10% or 20% adverse changes to key assumptions was considered to be immaterial.

The total loans reported by IGM, the securitized loans serviced by IGM, as well as cash flows related to securitization arrangements are as follows:

	2008	2007
Mortgages	**3,226**	2,469
Investment loans	**307**	319
	3,533	2,788
Less: securitized loans serviced	**2,943**	2,234
Total on-balance sheet loans	**590**	554
Net cash proceeds	**1,441**	1,287
Cash flows received on retained interests	**33**	13

NOTE 6. INVESTMENT AT EQUITY

	2008	2007
Carrying value, beginning of year	**3,503**	3,294
Share of operating earnings	**183**	145
Share of Pargesa's non-operating earnings [Note 22]	**(364)**	24
Share of other comprehensive income (loss)	**(452)**	89
Dividends	**(56)**	(49)
Carrying value, end of year	**2,814**	3,503
Share of equity, end of year	**2,813**	3,502

At December 31, 2008, Parjointco, 50% held by the Corporation, held a voting interest of 62.9% (2007 — 62.9%) and an equity interest of 54.1% (2007 – 54.1%) in Pargesa.

NOTE 7. GOODWILL AND INTANGIBLE ASSETS

During the fourth quarter of 2008, Lifeco's subsidiary in the United States division, Putnam, recorded a non-cash impairment charge on its indefinite life intangibles of $1,090 million (US$901 million) and goodwill of $1,088 million (US$899 million). The after-tax impact of the impairment charge is $1,353 million (US$1,118 million).

Using estimates of the fair values of brands and trademarks, customer contract-related intangibles, and goodwill, the fair value was determined to be lower than the carrying amount and as a result an impairment charge was recorded. The impairment charge reflects management's assessment of the impact of the decline of Putnam's assets under management as a result of both negative asset flows and a deterioration of investment market conditions since the acquisition date.

The impairment charge is recorded in the Consolidated Statements of Earnings in the other income (charges), net caption. While the entire Putnam goodwill was written off, it is possible that future changes in assumptions may result in the recognition of further impairment losses on the intangibles.

GOODWILL

The carrying value of goodwill and changes in the carrying value of goodwill are as follows:

	2008	2007
Balance, beginning of year	**9,230**	8,291
Acquisition	**202**	986
Impairment	**(1,088)**	–
Other, including the effect of foreign exchange	**269**	(47)
Balance, end of year	**8,613**	9,230

INTANGIBLE ASSETS

The carrying value of intangible assets and changes in the carrying value of intangible assets are as follows:

2008	Cost	Accumulated amortization	Change in foreign exchange rates	Impairment	Carrying value, end of year
Indefinite life intangible assets					
Brands and trademarks	**773**	–	**39**	**(111)**	**701**
Customer contract-related	**2,379**	–	**320**	**(979)**	**1,720**
Shareholder portion of acquired future participating accounts profits	**354**	–	–	–	**354**
Trade names	**285**	–	–	–	**285**
Mutual fund management contracts	**735**	–	–	–	**735**
	4,526	–	**359**	**(1,090)**	**3,795**
Finite life intangible assets					
Customer contract-related	**563**	**(108)**	**23**	–	**478**
Distribution channels	**126**	**(20)**	**(9)**	–	**97**
Distribution contracts	**105**	**(15)**	–	–	**90**
Technology	**13**	**(3)**	**1**	–	**11**
Property lease	**14**	**(4)**	**1**	–	**11**
	821	**(150)**	**16**	–	**687**
Total	**5,347**	**(150)**	**375**	**(1,090)**	**4,482**

NOTE 7. GOODWILL AND INTANGIBLE ASSETS (continued)

2007	Cost	Accumulated amortization	Change in foreign exchange rates	Impairment	Carrying value, end of year
Indefinite life intangible assets					
Brands and trademarks	773	–	(37)	–	736
Customer contract-related	2,379	–	(115)	–	2,264
Shareholder portion of acquired future participating accounts profits	354	–	–	–	354
Trade names	285	–	–	–	285
Mutual fund management contracts	696	–	–	–	696
	4,487	–	(152)	–	4,335
Finite life intangible assets					
Customer contract-related	543	(76)	(26)	–	441
Distribution channels	126	(16)	(11)	–	99
Distribution contracts	57	(9)	–	–	48
Technology	13	(1)	(1)	–	11
Property lease	14	(1)	(1)	–	12
	753	(103)	(39)	–	611
Total	5,240	(103)	(191)	–	4,946

In 2008, Mackenzie acquired Saxon and its subsidiaries. During the fourth quarter, Mackenzie completed an evaluation of the fair value of assets acquired and liabilities assumed (Note 2). The amount assigned to intangible assets represents the fair value of mutual fund management and institutional contracts acquired. The management contracts have indefinite useful lives and are not subject to amortization. The institutional contracts are amortized on a straight-line basis over a useful life not to exceed 15 years.

In 2008, in connection with the transition of the Canadian group retirement and savings plan record-keeping business of Fidelity (Note 2), Lifeco acquired approximately $20 million of finite-life intangible assets relating to customer contract-related intangible assets. The value assigned to these intangible assets will be adjusted in 2009 as part of the finalization of the transaction.

In 2007, in connection with the acquisition of Putnam (Note 2), Lifeco acquired approximately $2,388 million of indefinite-life intangible assets relating to brands and customer contract-related intangible assets and $184 million of finite-life intangible assets relating to customer contract-related, technology and property lease intangible assets.

In 2007, Mackenzie finalized the purchase price allocation of its 2006 acquisition of the assets of Cundill Investment Research Ltd. and related entities. The purchase price was allocated to indefinite-life and finite-life intangible assets and goodwill.

NOTE 8. INCOME TAXES

The Corporation's effective income tax rate is derived as follows:

	2008	2007
	%	%
Combined basic Canadian federal and provincial tax rates	**32.5**	35.0
Increase (decrease) in the income tax rate resulting from:		
Non-taxable investment income	**(11.1)**	(4.5)
Lower effective tax rates on income not subject to tax in Canada	**(16.8)**	(4.3)
Earnings of investment at equity	**4.5**	(1.3)
Miscellaneous	**(7.9)**	(2.7)
Effective income tax rate	**1.2**	22.2

Components of income tax expense are:		
Current income taxes	**657**	1,083
Future income taxes	**(641)**	(145)
	16	938

Future income taxes consist of the following taxable temporary differences on:

	2008	2007
Policy liabilities	**(522)**	(92)
Loss carry forwards	**1,336**	754
Investments	**(305)**	52
Deferred selling commissions	**(283)**	(313)
Intangible assets and goodwill	**427**	(383)
Other assets	**345**	(146)
Future income taxes	**998**	(128)

Classified in the Consolidated Balance Sheets as:		
Future income tax assets	**1,766**	615
Future income tax liabilities	**(768)**	(743)
	998	(128)

The effective tax rate of 1.2% would be 24.2%, excluding the impact of the goodwill and intangible impairment charge as described in Note 7. In conjunction with the goodwill and intangible impairment charge, Lifeco also wrote off a future tax asset with regards to state taxes in the amount of $34 million (US$28 million).

Intangible assets and goodwill above included $818 million related to the goodwill and intangible impairment charge recorded in the fourth quarter of 2008 by a subsidiary of Lifeco in the United States. As a part of the intangible and goodwill testing, the future tax asset in the United States subsidiary was evaluated, and it was concluded that a valuation allowance was not required based upon the 20 year carry forward of this amount combined with tax planning opportunities.

As at December 31, 2008, the Corporation and its subsidiaries have non-capital losses of $547 million ($524 million in 2007) available to reduce future taxable income for which the benefits have not been recognized. These losses expire at various dates to 2028. In addition, the Corporation has capital loss carry forwards that can be used indefinitely to offset future capital gains of approximately $61 million ($61 million in 2007).

NOTE 9. OTHER ASSETS

	2008	2007
Dividends, interest and other receivables	**2,190**	2,518
Premiums in course of collection	**502**	496
Deferred selling commissions	**941**	990
Fixed assets	**367**	328
Accrued benefit asset [Note 23]	**321**	274
Derivative financial instruments	**847**	940
Other	**1,533**	1,155
	6,701	6,701

NOTE 10. ACTUARIAL LIABILITIES

COMPOSITION OF ACTUARIAL LIABILITIES AND RELATED SUPPORTING ASSETS

The composition of actuarial liabilities is as follows:

	Participating		Non-Participating		Total	
	2008	2007	**2008**	2007	**2008**	2007
Canada	**19,194**	19,733	**19,852**	20,676	**39,046**	40,409
United States	**8,951**	7,153	**14,110**	11,999	**23,061**	19,152
Europe	**1,571**	1,739	**34,217**	26,187	**35,788**	27,926
Total	**29,716**	28,625	**68,179**	58,862	**97,895**	87,487

The composition of the assets supporting liabilities and surplus of Lifeco is as follows:

2008	Bonds	Mortgage loans	Stocks	Real estate	Other	Total
Carrying value						
Participating	**13,743**	**5,760**	**2,512**	**257**	**7,444**	**29,716**
Non-participating						
Canada	**11,888**	**5,282**	**741**	**8**	**1,933**	**19,852**
United States	**9,672**	**1,556**	–	–	**2,882**	**14,110**
Europe	**16,797**	**2,302**	**152**	**1,809**	**13,157**	**34,217**
Other	**6,982**	**2,082**	**920**	**308**	**8,659**	**18,951**
Capital and surplus	**7,472**	**462**	**1,069**	**806**	**3,419**	**13,228**
Total carrying value	**66,554**	**17,444**	**5,394**	**3,188**	**37,494**	**130,074**
Fair value	**66,096**	**17,571**	**5,390**	**3,053**	**37,494**	**129,604**

2007	Bonds	Mortgage loans	Stocks	Real estate	Other	Total
Carrying value						
Participating	12,893	5,340	3,383	225	6,784	28,625
Non-participating						
Canada	12,527	5,386	879	5	1,879	20,676
United States	10,163	1,333	16	–	487	11,999
Europe	19,036	1,984	183	1,326	3,658	26,187
Other	5,937	1,654	1,072	375	10,761	19,799
Capital and surplus	4,513	172	1,010	616	4,597	10,908
Total carrying value	65,069	15,869	6,543	2,547	28,166	118,194
Fair value	65,276	16,006	6,684	2,844	28,166	118,976

NOTE 10. ACTUARIAL LIABILITIES (continued)

Cash flows of assets supporting actuarial liabilities are matched within reasonable limits. Changes in the fair values of these assets are essentially offset by changes in the fair value of actuarial liabilities.

Changes in the fair values of assets backing capital and surplus, less related income taxes, would result in a corresponding change in surplus over time in accordance with investment accounting policies.

CHANGES IN ACTUARIAL LIABILITIES

The change in actuarial liabilities during the year was the result of the following business activities and changes in actuarial estimates:

	2008	2007
Balance, end of previous year	**87,487**	89,416
Fair value adjustment	**–**	3,893
Balance, beginning of year	**87,487**	93,309
Impact of new business	**4,086**	3,543
Normal change in force	**(7,721)**	(6,650)
Management action and changes in assumptions	**172**	50
Business movement from/to external parties	**12,039**	1,979
Impact of foreign exchange rate changes	**1,832**	(4,744)
Balance, end of year	**97,895**	87,487

The 2007 amounts presented above for comparative purposes reflect the reclassification of liabilities between tax liabilities and actuarial liabilities to conform with the presentation adopted in the current year.

With the adoption of fair value accounting in 2007, movement in the market value of the supporting assets has become a major factor in the movement of actuarial liabilities. The movement in the actuarial liabilities on introduction of fair value is noted in the fair value adjustment line above. The movement during 2007 and 2008 is included in the normal change in force above.

In 2008, the major contributors to the increase in actuarial liabilities were the reinsurance of a large block of U.K. payout annuities from Standard Life Assurance Limited, the impact of new business and the impact of foreign exchange rates, partially offset by the normal change in the in-force business.

Non-participating actuarial liabilities increased by $131 million in 2008 due to management actions and assumption changes. By segment, a $250 million increase in Europe and $63 million increase in the U.S. were partially offset by a $182 million decrease in Canada. The increase in Europe was primarily due to strengthened life annuitant mortality ($203 million increase), strengthened provisions for asset liability matching ($109 million increase) and strengthened provisions for asset default ($108 million increase) partially offset by two annuitant mortality risk transfer agreements ($98 million decrease) and improved morbidity ($68 million decrease). The increase in the U.S. was primarily due to strengthened expenses ($82 million increase). The decrease in Canada was primarily due to improved Individual Life mortality ($105 million decrease) and improved Individual and Group morbidity ($94 million decrease).

Participating actuarial liabilities increased by $41 million in 2008 due to management actions and assumption changes. This increase was primarily due to lowered investment returns ($76 million increase) and an increase in the provision for future policyholder dividends ($93 million increase), partially offset by improved life mortality ($66 million decrease) and improved expenses and taxes ($62 million decrease).

In 2007, the major contributor to the decline in actuarial liabilities was the impact of foreign exchange rates partially offset by the recapture from an external reinsurer of the remainder of the group business not recaptured in 2006 and the acquisition of all of the outstanding common shares of Crown Life.

Non-participating actuarial liabilities increased by $53 million in 2007 due to management actions and assumption changes. This increase was primarily due to strengthened provisions for asset liability matching ($146 million increase), and life annuitant mortality strengthening ($88 million increase), partially offset by improved life mortality ($84 million decrease), reduced expense and tax provisions ($57 million decrease) and reduced Group waiver and LTD provisions ($51 million decrease).

NOTE 10. ACTUARIAL LIABILITIES (continued)

Participating actuarial liabilities decreased by $3 million in 2007 due to management actions and assumption changes. This decrease was primarily due to improved investment returns ($265 million decrease), reduced expense and tax provisions ($188 million decrease) and improved life mortality ($149 million decrease), partially offset by an increase in the provision for future policyholder dividends ($558 million increase).

ACTUARIAL ASSUMPTIONS

In the computation of actuarial liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses and rates of policy termination. The valuation assumptions use best estimates of future experience together with a margin for misestimation and experience deterioration. These margins have been set in accordance with guidelines established by the Canadian Institute of Actuaries and are necessary to provide reasonable assurance that actuarial liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

The methods for arriving at these valuation assumptions are outlined below:

Mortality A life insurance mortality study is carried out annually for each major block of insurance business. The results of each study are used to update Lifeco's experience valuation mortality tables for that business. When there is insufficient data, use is made of the latest industry experience to derive an appropriate valuation mortality assumption. Although mortality improvements have been observed for many years, for life insurance valuation the mortality provisions (including margin) do not allow for future improvements. A 1% increase in the best estimate assumption would increase non-participating actuarial liabilities by approximately $108 million.

Annuitant mortality is also studied regularly and the results used to modify established industry experience annuitant mortality tables. Mortality improvement has been projected to occur throughout future years for annuitants. A 1% decrease in the best estimate assumption would increase non-participating actuarial liabilities by approximately $129 million.

Morbidity Lifeco uses industry-developed experience tables modified to reflect emerging company experience. Both claim incidence and termination are monitored regularly and emerging experience is factored into the current valuation. For products for which morbidity is a significant assumption, a 1% adverse change in the best estimate assumptions would increase non-participating actuarial liabilities by approximately $60 million.

Property and Casualty Reinsurance Actuarial liabilities for property and casualty reinsurance written by London Reinsurance Group Inc. (LRG), a subsidiary of London Life, are determined using accepted actuarial practices for life insurers in Canada. Reflecting the long-term nature of the business, reserves have been established using cash flow valuation techniques, including discounting. The reserves are based on cession statements provided by ceding companies. In certain instances, LRG management adjusts cession statement amounts to reflect management's interpretation of the treaty. Differences will be resolved via audits and other loss mitigation activities. In addition, reserves also include an amount for incurred but not reported losses (IBNR) which may differ significantly from the ultimate loss development. The estimates and underlying methodology are continually reviewed and updated, and adjustments to estimates are reflected in income. LRG analyses the emergence of claims experience against expected assumptions for each reinsurance contract separately and at the portfolio level. If necessary, a more in-depth analysis is undertaken of the cedant experience.

Investment Returns The assets which correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in CALM to determine actuarial liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under several interest rate scenarios (including increasing and decreasing rates) is done to provide for reinvestment risk (refer to Note 18).

Expenses Unit expense studies are updated regularly to determine an appropriate estimate of future expenses for the liability type being valued. Expense improvements are not projected. An inflation assumption is incorporated in the estimate of future expenses consistent with the interest rate scenarios projected under CALM. For Lifeco as a whole, a 10% increase in the best estimate maintenance unit expense assumption would increase the non-participating actuarial liabilities by approximately $158 million.

NOTE 10. ACTUARIAL LIABILITIES (continued)

Policy Termination Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where Lifeco has no experience with specific types of policies or its exposure is limited. A 10% adverse change in the best estimate policy termination assumption would increase non-participating actuarial liabilities by approximately $345 million.

Policyholder Dividends Future policyholder dividends are included in the determination of actuarial liabilities for participating policies, with the assumption that policyholder dividends will change in the future to reflect the experience of the respective participating accounts, consistent with the participating policyholder dividend policies. It is Lifeco's expectation that, associated with changes in the best estimate assumptions for participating business, would be corresponding changes in policyholder dividend scales, resulting in an immaterial net change in actuarial liabilities for participating business.

RISK MANAGEMENT

Interest Rate Risk Interest rate risk is managed by effectively matching portfolio investments with liability characteristics. Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes.

Credit Risk Credit risk is managed through an emphasis on quality in the investment portfolio and by maintenance of issuer, industry and geographic diversification standards.

Projected investment returns are reduced to provide for future credit losses on assets. The net effective yield rate reduction averaged 0.19% (0.15% in 2007). The calculation for future credit losses on assets is based on the credit quality of the underlying asset portfolio.

The following outlines the future asset credit losses provided for in actuarial liabilities. These amounts are in addition to the allowance for asset losses included with assets:

	2008	2007
Participating policyholders	**552**	548
Non-participating policyholders	**1,208**	796
	1,760	1,344

Reinsurance Risk Maximum benefit amount limits per insured life (which vary by line of business) are established for life and health insurance, and reinsurance is purchased for amounts in excess of those limits.

Reinsurance contracts do not relieve Lifeco from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to Lifeco. Lifeco evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

As a result of reinsurance, actuarial liabilities have been reduced by the following amounts:

	2008	2007
Participating policyholders	**112**	93
Non-participating policyholders	**2,891**	2,680
	3,003	2,773

Certain of the reinsurance contracts are on a funds-withheld basis where Lifeco retains the assets supporting the reinsured actuarial liabilities, thus minimizing the exposure to significant losses from reinsurer insolvency on those contracts.

Foreign Exchange Risk If the assets backing actuarial liabilities are not matched by currency, changes in foreign exchange rates can expose Lifeco to the risk of foreign exchange losses not offset by liability decreases.

Foreign exchange risk is managed whenever possible by matching assets with related liabilities by currency and through the use of derivative instruments such as forward contracts and cross-currency swaps. These financial instruments allow Lifeco to modify an asset position to more closely match actual or committed liability currency.

Liquidity Risk Liquidity risk is the risk that Lifeco will have difficulty raising funds to meet commitments. The liquidity needs of Lifeco are closely managed through cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between policyholder requirements and the yield of assets. Approximately 71% of policy liabilities are non-cashable prior to maturity or subject to market value adjustments.

NOTE 11. DEBENTURES AND OTHER BORROWINGS

	2008	2007
SHORT TERM		
IGM Financial Inc.		
Credit facility at a rate equal to Canadian bankers' acceptance rate plus 0.30%	**100**	100
Non-revolving bridge credit facility at a rate equal to Canadian bankers' acceptance rate plus 0.30 % due October 27, 2009	**287**	–
Great-West Lifeco Inc.		
Commercial paper and other short-term debt instruments with interest rates from 0.6% to 2.4% (4.8% to 5.5% in 2007)	**119**	95
Credit facility at a rate equal to Canadian bankers' acceptance rate plus 0.25%	**–**	1,233
Credit facility at a rate equal to LIBOR rate plus 0.25% (2007 – US$647 million)	**–**	640
Revolving credit facility at a rate equal to LIBOR rate plus 0.25% (US$120 million)	**146**	–
Total short term	**652**	2,068
LONG TERM		
Power Financial Corporation		
6.90% debentures, due March 11, 2033	**250**	250
IGM Financial Inc.		
6.75% debentures 2001 Series, due May 9, 2011	**450**	450
6.58% debentures 2003 Series, due March 7, 2018	**150**	150
6.65% debentures 1997 Series, due December 13, 2027	**125**	125
7.45% debentures 2001 Series, due May 9, 2031	**150**	150
7.00% debentures 2002 Series, due December 31, 2032	**175**	175
7.11% debentures 2003 Series, due March 7, 2033	**150**	150
Great-West Lifeco Inc.		
Five-year term facility at LIBOR rate plus 0.30% (2008 – US$304 million, 2007 – US$500 million)	**371**	495
Subordinated debentures due December 11, 2013 bearing a fixed rate of 5.80% until December 11, 2008 and, thereafter, at a rate equal to the Canadian 90-day bankers' acceptance rate plus 1%, unsecured	**–**	202
6.75% debentures due August 10, 2015, unsecured	**200**	200
6.14% debentures due March 21, 2018, unsecured	**200**	200
6.40% subordinated debentures due December 11, 2028, unsecured	**101**	101
6.74% debentures due November 24, 2031, unsecured	**200**	200
6.67% debentures due March 21, 2033, unsecured	**400**	400
6.625% deferrable debentures due November 15, 2034, unsecured (US$175 million)	**212**	172
Subordinated debentures due May 16, 2046, bearing an interest rate of 7.153% until May 16, 2016 and, thereafter, a rate of 2.538% plus the 3-month LIBOR rate, unsecured (US$300 million)	**366**	297
Subordinated debentures due June 21, 2067, bearing an interest rate of 5.691% until 2017 and, thereafter, a rate equal to the Canadian 90-day bankers' acceptance rate plus 1.49%, unsecured	**1,000**	1,000
Subordinated debentures due June 26, 2068, bearing an interest rate of 7.127% until 2018 and, thereafter, a rate equal to the Canadian 90-day bankers' acceptance rate plus 3.78%, unsecured	**500**	–
Notes payable with interest rate of 8.0% due May 6, 2014, unsecured	**6**	6
Total long term	**5,006**	4,723
	5,658	6,791

NOTE 11. DEBENTURES AND OTHER BORROWINGS (continued)

On December 11, 2008 Canada Life repaid $200 million of the principal amount of its 5.8% subordinated debentures.

On June 26, 2008, Lifeco issued $500 million of 7.127% subordinated debentures through its wholly owned subsidiary Great-West Lifeco Finance (Delaware) LP II. The subordinated debentures are due June 26, 2068 and bear an interest rate of 7.127% until June 26, 2018. After June 26, 2018, the subordinated debentures will bear an interest rate of the Canadian 90-day bankers' acceptance rate plus 3.78%. Subject to a Replacement Capital Covenant, the subordinated debentures may be redeemed by Lifeco at the principal amount plus any unpaid and accrued interest after June 26, 2018.

During 2008, Putnam Acquisition Financing LLC repaid US$196 million of the U.S. dollar five-year term facility.

On March 19, 2008, Lifeco repaid $235 million on its one-year credit facility with a Canadian chartered bank. On April 18, 2008, Lifeco repaid C$730 million and US$345 million on this facility and, on June 26, 2008, Lifeco repaid the remaining C$268 million and US$302 million on this facility. The balance outstanding on this credit facility at December 31, 2007 was $1,873 million (C$1,233 million and US$647 million), and at June 30, 2008, the credit facility had been fully repaid.

On January 24, 2008, a subsidiary of Putnam executed a demand promissory note in the amount of US$150 million with a Canadian chartered bank. On January 24, 2008, Putnam drew US$150 million on the note. On March 26, 2008, a subsidiary of Putnam executed a US$200 million revolving credit facility with a Canadian chartered bank and used proceeds from the facility to repay the US$150 million demand promissory note. There was US$120 million outstanding under the line of credit at December 31, 2008.

A Schedule I Canadian chartered bank has provided IGM with a non-revolving bridge credit facility related to the acquisition of Saxon. The balance of the credit facility is due on October 27, 2009. IGM has the option to extend the maturity date to April 2010. Interest rates on the credit facility fluctuate with Canadian bankers' acceptances.

On June 20, 2007, Lifeco borrowed $124 million under an existing revolving line of credit facility with a Canadian chartered bank. On August 2, 2007, Lifeco fully repaid the balance of $124 million.

On June 21, 2007, Lifeco issued $1.0 billion of 5.691% subordinated debentures through its wholly owned subsidiary Great-West Lifeco Finance (Delaware) LP. The subordinated debentures are due June 21, 2067 and bear an annual interest rate of 5.691% until June 21, 2017. After June 21, 2017, the subordinated debentures will bear an interest rate of the Canadian 90-day bankers' acceptance rate plus 1.49%. The subordinated debentures may be redeemed by Lifeco at the principal amount plus any accrued and unpaid interest after June 21, 2017.

The principal payments on long-term debentures and other borrowings in each of the next five years is as follows:

2009	1
2010	1
2011	451
2012	372
2013	1
2014 and thereafter	4,180

NOTE 12. CAPITAL TRUST SECURITIES AND DEBENTURES

	2008	2007
Capital trust debentures		
5.995% senior debentures due December 31, 2052, unsecured (GWLCT)	**350**	350
6.679% senior debentures due June 30, 2052, unsecured (CLCT)	**300**	300
7.529% senior debentures due June 30, 2052, unsecured (CLCT)	**150**	150
	800	800
Acquisition-related fair market value adjustment	**25**	28
Trust securities held by the consolidated group as temporary investments	**(167)**	(189)
	658	639

Great-West Life Capital Trust (GWLCT), a trust established by Great-West Life, had issued $350 million of capital trust securities, the proceeds of which were used by GWLCT to purchase Great-West Life senior debentures in the amount of $350 million, and Canada Life Capital Trust (CLCT), a trust established by Canada Life, had issued $450 million of capital trust securities, the proceeds of which were used by CLCT to purchase Canada Life senior debentures in the amount of $450 million. Distributions and interest on the capital trust securities are classified as financing charges on the Consolidated Statements of Earnings (see Note 21).

NOTE 13. OTHER LIABILITIES

	2008	2007
Accounts payable, accrued liabilities and other	**4,213**	4,605
Deferred net realized gains	**161**	179
Income taxes payable	**273**	414
Repurchase agreements	**334**	344
Accrued benefit liability [Note 23]	**684**	663
Derivative financial instruments	**1,261**	136
Dividends and interest payable	**328**	292
	7,254	6,633

NOTE 14. NON-CONTROLLING INTERESTS

	2008	2007
Non-controlling interests include		
Participating policyholders	**2,012**	2,103
Preferred shareholders of subsidiaries	**1,492**	1,261
Common shareholders of subsidiaries	**4,910**	4,155
	8,414	7,519
Earnings from continuing operations attributable to non-controlling interests include		
Earnings attributable to participating policyholders	**(116)**	141
Dividends to preferred shareholders of subsidiaries	**72**	73
Earnings from continuing operations attributable to common shareholders of subsidiaries	**486**	825
	442	1,039

In 2008, non-controlling interests of Lifeco decreased by approximately $176 million (Power Financial's share – $128 million) in connection with the termination of a long-standing assumption reinsurance agreement under which GWL&A had reinsured a block of U.S. participating policies.

POWER FINANCIAL CORPORATION

NOTE 15. STATED CAPITAL

AUTHORIZED

Unlimited number of first preferred shares, issuable in series, of second preferred shares, issuable in series and of common shares.

ISSUED AND OUTSTANDING

		2008		2007
	Number of shares	Stated capital	Number of shares	Stated capital
Preferred Shares (classified as liabilities)				
Series C First Preferred Shares(i)	**6,000,000**	**150**	6,000,000	150
Series J First Preferred Shares(ii)	**6,000,000**	**150**	6,000,000	150
		300		300
Preferred Shares (perpetual)				
Series A First Preferred Shares(iii)	**4,000,000**	**100**	4,000,000	100
Series D First Preferred Shares(iv)	**6,000,000**	**150**	6,000,000	150
Series E First Preferred Shares(v)	**8,000,000**	**200**	8,000,000	200
Series F First Preferred Shares(vi)	**6,000,000**	**150**	6,000,000	150
Series H First Preferred Shares(vii)	**6,000,000**	**150**	6,000,000	150
Series I First Preferred Shares(viii)	**8,000,000**	**200**	8,000,000	200
Series K First Preferred Shares(ix)	**10,000,000**	**250**	10,000,000	250
Series L First Preferred Shares(x)	**8,000,000**	**200**	8,000,000	200
Series M First Preferred Shares(xi)	**7,000,000**	**175**	–	–
		1,575		1,400
Common Shares(xii)	**705,013,680**	**595**	704,893,680	594

(i) The 5.20% Non-Cumulative First Preferred Shares, Series C are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.30 per share per annum. The Corporation may redeem for cash the Series C First Preferred Shares in whole or in part, at the Corporation's option, at $25.80 per share if redeemed within the twelve months commencing October 31, 2008, declining by $0.20 per share for each subsequent twelve-month period thereafter to October 31, 2011, $25.20 if redeemed on or after October 31, 2011 and before July 31, 2012, and $25.00 if redeemed on or after July 31, 2012, in each case together with all declared and unpaid dividends to the date of redemption.

On or after July 31, 2012, the Corporation may convert each Series C First Preferred Share into that number of common shares determined by dividing $25.00 together with all declared and unpaid dividends to the date of conversion by the greater of $3.00 and 95% of the weighted average trading price of the common shares for the 20 trading days ending on the last trading day occurring on or before the fourth day immediately prior to the date of conversion.

On or after October 31, 2012, subject to the right of the Corporation to offer the right to convert into a further series of preferred shares, to redeem for cash or to find substitute purchasers for such shares, each Series C First Preferred Share will be convertible at the option of the holder, on the last day of January, April, July and October of each year into that number of common shares determined by dividing $25.00 together with all declared and unpaid dividends to the date of conversion by the greater of $3.00 and 95% of the weighted average trading price of the common shares for the 20 trading days ending on the last trading day occurring on or before the fourth day immediately prior to the date of conversion.

NOTE 15. STATED CAPITAL (continued)

(ii) The 4.70% Non-Cumulative First Preferred Shares, Series J are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.175 per share per annum. The Corporation may redeem for cash the Series J First Preferred Shares in whole or in part, at the Corporation's option, at $26.00 per share if redeemed prior to April 30, 2009, $25.75 if redeemed thereafter and prior to April 30, 2010, $25.50 if redeemed thereafter and prior to April 30, 2011, $25.25 if redeemed thereafter and prior to April 30, 2012 and $25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends to, but excluding, the date of redemption.

On and after April 30, 2013, the Corporation may convert each Series J First Preferred Share into that number of common shares determined by dividing $25.00 together with all declared and unpaid dividends to the date of conversion by the greater of $3.00 and 95% of the weighted average trading price of the common shares for the 20 trading days ending on the last trading day occurring on or before the fourth day immediately prior to the date of conversion.

On and after July 31, 2013, subject to the right of the Corporation to offer the right to convert into a further series of preferred shares, to redeem for cash or to find substitute purchasers for such shares, each Series J First Preferred Share will be convertible at the option of the holder, on the last day of January, April, July and October of each year into that number of common shares determined by dividing $25.00 together with all declared and unpaid dividends to the date of conversion by the greater of $3.00 and 95% of the weighted average trading price of the common shares for the 20 trading days ending on the last trading day occurring on or before the fourth day immediately prior to the date of conversion.

(iii) The Series A First Preferred Shares are entitled to an annual cumulative dividend at a floating rate equal to 70% of the prime rate of two major Canadian chartered banks and are redeemable at the Corporation's option at $25.00 per share.

(iv) The 5.50% Non-Cumulative First Preferred Shares, Series D are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.375 per share per annum. On and after January 31, 2013, the Corporation may redeem for cash the Series D First Preferred Shares in whole or in part, at the Corporation's option, at $25.00 per share together with all declared and unpaid dividends to, but excluding, the date of redemption.

(v) The 5.25% Non-Cumulative First Preferred Shares, Series E are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.3125 per share per annum. The Corporation may redeem for cash the Series E First Preferred Shares in whole or in part, at the Corporation's option, at $25.50 if redeemed prior to November 30, 2009, $25.25 if redeemed thereafter and prior to November 30, 2010 and $25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends to, but excluding, the date of redemption.

(vi) The 5.90% Non-Cumulative First Preferred Shares, Series F are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.475 per share per annum. The Corporation may redeem for cash the Series F First Preferred Shares in whole or in part, at the Corporation's option, at $25.75 if redeemed prior to July 17, 2009, $25.50 if redeemed thereafter and prior to July 17, 2010, $25.25 if redeemed thereafter and prior to July 17, 2011 and $25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends to, but excluding, the date of redemption.

(vii) The 5.75% Non-Cumulative First Preferred Shares, Series H are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.4375 per share per annum. The Corporation may redeem for cash the Series H First Preferred Shares in whole or in part, at the Corporation's option, at $25.75 if redeemed prior to December 10, 2009, $25.50 if redeemed thereafter and prior to December 10, 2010, $25.25 if redeemed thereafter and prior to December 10, 2011 and $25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends to, but excluding, the date of redemption.

(viii) The 6.00% Non-Cumulative First Preferred Shares, Series I are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.50 per share per annum. The Corporation may redeem for cash the Series I First Preferred Shares in whole or in part, at the Corporation's option, at $26.00 per share if redeemed prior to April 30, 2009, $25.75 if redeemed thereafter and prior to April 30, 2010, $25.50 if redeemed thereafter and prior to April 30, 2011, $25.25 if redeemed thereafter and prior to April 30, 2012 and $25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends to, but excluding, the date of redemption.

NOTE 15. STATED CAPITAL (continued)

(ix) The 4.95% Non-Cumulative First Preferred Shares, Series K are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.2375 per share per annum. On and after October 31, 2010, the Corporation may redeem for cash the Series K First Preferred Shares in whole or in part, at the Corporation's option, at $26.00 per share if redeemed prior to October 31, 2011, $25.75 if redeemed thereafter and prior to October 31, 2012, $25.50 if redeemed thereafter and prior to October 31, 2013, $25.25 if redeemed thereafter and prior to October 31, 2014 and $25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends to, but excluding, the date of redemption.

(x) The 5.10% Non-Cumulative First Preferred Shares, Series L are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.2750 per share per annum. On and after October 31, 2011, the Corporation may redeem for cash the Series L First Preferred Shares in whole or in part, at the Corporation's option, at $26.00 per share if redeemed prior to October 31, 2012, $25.75 if redeemed thereafter and prior to October 31, 2013, $25.50 if redeemed thereafter and prior to October 31, 2014, $25.25 if redeemed thereafter and prior to October 31, 2015, $25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends to, but excluding, the date of redemption.

(xi) In 2008, the Corporation issued 7,000,000 6.00% Non-Cumulative 5-year Rate Reset First Preferred Shares, Series M for cash proceeds of $175 million. The 6.00% Non-Cumulative First Preferred Shares, Series M are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.50 per share per annum. On January 31, 2014 and on January 31 every five years thereafter, the Corporation may redeem for cash the Series M First Preferred shares in whole or in part, at the Corporation's option, at $25.00 plus all declared and unpaid dividends to the date fixed for redemption or the Series M First Preferred Shares are convertible to Non-Cumulative Floating Rate First Preferred Shares, Series N, at the option of the holders on January 31, 2014 or on January 31 every five years thereafter. Transaction costs of $4 million incurred in connection with the Series M First Preferred Shares were charged to retained earnings.

(xii) During the year, 120,000 common shares (80,000 in 2007) were issued under the Corporation's Employee Stock Option Plan for a consideration of $1 million ($1 million in 2007).

NOTE 16. STOCK-BASED COMPENSATION

(i) On October 1, 2000, the Corporation established a deferred share unit plan for the Directors of the Corporation to promote a greater alignment of interests between Directors and shareholders of the Corporation. Under this plan, each Director may elect to receive his or her annual retainer and attendance fees entirely in the form of deferred share units, entirely in cash, or equally in cash and deferred share units. The number of deferred share units granted is determined by dividing the amount of remuneration payable by the five-day-average closing price on the Toronto Stock Exchange of the Common Shares of the Corporation on the last five days of the fiscal quarter (the value of a deferred share unit). A Director who has elected to receive deferred share units will receive additional deferred share units in respect of dividends payable on Common Shares, based on the value of a deferred share unit at that time. A deferred share unit shall be redeemable at the time a Director's membership on the Board is terminated or in the event of the death of a Director, by a lump sum cash payment, based on the value of a deferred share unit at that time. At December 31, 2008, the value of the deferred share units outstanding was $5.1 million ($7.0 million in 2007). In addition, Directors may also participate in the Directors Share Purchase Plan.

(ii) Effective May 1, 2000, an Employee Share Purchase Program was implemented, giving employees the opportunity to subscribe for up to 6% of their gross salary to purchase Subordinate Voting Shares of Power Corporation of Canada on the open market and to have the Corporation invest, on the employee's behalf, up to an equal amount. The amount paid on behalf of employees was $0.2 million in 2008 ($0.2 million in 2007).

NOTE 16. STOCK-BASED COMPENSATION (continued)

(iii) Compensation expense is recorded for options granted under the Corporation's and its subsidiaries' stock option plans based on the fair value of the options at the grant date, amortized over the vesting period.

During the year ended December 31, 2008, 2,401,115 options (no options in 2007) were granted under the Corporation's Employee Stock Option Plan. The fair value of these options was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2008
Dividend yield	**3.2%**
Expected volatility	**16.6%**
Risk-free interest rate	**3.5%**
Expected life (years)	**9**
Fair value per stock option ($/option)	**$5.08**

For the year ended December 31, 2008, compensation expense relating to the stock options granted by the Corporation and its subsidiaries amounted to $29 million ($20 million in 2007).

(iv) Under the Corporation's Employee Stock Option Plan, 20,581,600 additional shares are reserved for issuance. The plan requires that the exercise price under the option must not be less than the market value of a share on the date of the grant of the option. Options have a term of ten years and may be exercised as follows: 50% one year after the grant date, 75% two years after the grant date and 100% three years after the grant date, except for a grant of 514,484 options in 2008 which vest totally on August 5, 2009; a grant of 914,236 options in 2008 which vest as follows: 304,745 at December 31, 2008, 304,745 at December 31, 2009 and 304,745 at December 31, 2010; grants of 972,395 options in 2008 which vest equally over a period of five years beginning in 2009.

A summary of the status of the Corporation's Employee Stock Option Plan as at December 31, 2008 and 2007, and changes during the years ended on those dates is as follows:

		2008		2007
	Options	Weighted-average exercise price	Options	Weighted-average exercise price
		$		$
Outstanding at beginning of year	**8,345,000**	**21.09**	8,425,000	20.96
Granted	**2,401,115**	**32.32**	–	–
Exercised	**(120,000)**	**13.13**	(80,000)	6.66
Outstanding at end of year	**10,626,115**	**23.72**	8,345,000	21.09
Options exercisable at end of year	**7,723,745**	**20.58**	7,136,000	19.21

The following table summarizes information about stock options outstanding at December 31, 2008:

	Options outstanding			Options exercisable	
Range of exercise prices	Options	Weighted-average remaining life	Weighted-average exercise price	Options	Weighted-average exercise price
		(yrs)	$		$
13.50 – 16.87	**3,160,000**	**1.6**	**13.67**	**3,160,000**	**13.67**
21.65 – 29.63	**3,880,980**	**5.7**	**23.42**	**3,050,000**	**21.74**
31.59 – 37.13	**3,585,135**	**7.7**	**32.90**	**1,513,745**	**32.68**
	10,626,115	**5.1**	**23.72**	**7,723,745**	**20.58**

NOTE 17. CAPITAL MANAGEMENT

As an investment holding company, Power Financial's objectives in managing its capital are:

- To provide sufficient financial flexibility to pursue its growth strategy and support its group companies and other investments.
- To maintain an appropriate credit rating to achieve access to the capital markets at the lowest overall cost of capital.
- To provide attractive long-term returns to shareholders of the Corporation.

The Corporation manages its capital taking into consideration the risk characteristics and liquidity of its holdings. In order to maintain or adjust its capital structure, the Corporation may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new forms of capital.

The capital structure of the Corporation consists of preferred shares, debentures and shareholders' equity composed of stated capital, retained earnings and non-controlling interest in the equity of subsidiaries of the Corporation. The Corporation has utilized perpetual preferred shares as a permanent and cost-effective source of capital. The Corporation considers itself to be a long-term investor and as such holds positions in long-term investments as well as cash and short-term investments for liquidity purposes. As such, the Corporation makes minimal use of leverage at the holding company level.

The Corporation is not subject to externally imposed regulatory capital requirements.

The Corporation's major operating subsidiaries are subject to regulatory capital requirements along with capital standards set by peers or rating agencies.

Lifeco's subsidiaries Great-West Life and GWL&A are subject to minimum regulatory capital requirements. Lifeco's practice is to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate:

- In Canada, the Office of the Superintendent of Financial Institutions (OSFI) has established a capital adequacy measurement for life insurance companies incorporated under the *Insurance Companies Act* (Canada) and their subsidiaries, known as the Minimum Continuing Capital and Surplus Requirements (MCCSR). As at December 31, 2008, the MCCSR ratio for Great-West Life was 210%.
- GWL&A is subject to comprehensive state and federal regulation and supervision throughout the United States. The National Association of Insurance Commissioners (NAIC) has adopted risk-based capital rules and other financial ratios for U.S. life insurance companies. At the end of 2008, the risk-based capital (RBC) ratio for GWL&A was 406%, well in excess of that required by NAIC.
- As at December 31, 2008 and 2007, Lifeco maintained capital level above the minimum local requirements in its other foreign operations.

IGM subsidiaries subject to regulatory capital requirements include trust companies, securities dealers and mutual fund dealers. These subsidiaries are in compliance with all regulatory capital requirements.

NOTE 18. RISK MANAGEMENT

Power Financial and its subsidiaries have policies relating to the identification, measurement, monitoring, mitigating and controlling of risks associated with financial instruments. The key risks related to financial instruments are liquidity risk, credit risk and market risk (currency, interest rate and equity). The following sections describe how each segment manages these risks.

LIQUIDITY RISK

Liquidity risk is the risk that the Corporation and its subsidiaries will not be able to meet all cash outflow obligations as they come due.

Power Financial is a holding company. As such, corporate cash flows from operations, before payment of dividends, are principally made up of dividends received from its subsidiaries and investment at equity, and income from investments, less operating expenses, financing charges and income taxes. The ability of Lifeco and IGM, which are also holding companies, to meet their obligations and pay dividends depends in particular upon receipt of sufficient funds from their own subsidiaries.

Power Financial maintains at all times sufficient liquidity to meet all its cash flow requirements. In addition, Power Financial and its parent, Power Corporation of Canada, jointly maintain a $120 million uncommitted line of credit with a Canadian chartered bank.

Principal payments on long-term debentures represent the only significant contractual liquidity requirement of Power Financial.

As at December 31, 2008	Less than 1 year	1–5 years	After 5 years	Total
Long-term debentures	–	–	**250**	**250**

For Lifeco, the following policies and procedures are in place to manage liquidity risk:

› Lifeco closely manages operating liquidity through cash flow matching of assets and liabilities.

› Management of Lifeco monitors the use of a line of credit on a regular basis, and assesses the ongoing availability of these and alternative forms of operating credit.

› Management of Lifeco closely monitors the solvency and capital positions of its principal subsidiaries opposite liquidity requirements at the holding company. Additional liquidity is available through established lines of credit and Lifeco's demonstrated ability to access capital markets for funds. Lifeco maintains a $200 million committed line of credit with a Canadian chartered bank.

In the normal course of business, Lifeco enters into contracts that give rise to commitments of future minimum payments that impact short-term and long-term liquidity. The following table summarizes the principal repayment schedule of certain of Lifeco's financial liabilities.

	Payments due by period						
As at December 31, 2008	1 year	2 years	3 years	4 years	5 years	After 5 years	Total
Debentures and other debt instruments	**266**	**1**	**1**	**372**	**1**	**3,179**	**3,820**
Preferred shares liabilities	–	–	–	–	**557**	**199**	**756**
Capital trust debentures (i)	–	–	–	–	–	**800**	**800**
Purchase obligations	**73**	**56**	**47**	**27**	**13**	–	**216**
Pension contributions	**81**	–	–	–	–	–	**81**
	420	**57**	**48**	**399**	**571**	**4,178**	**5,673**

(i) Payments due have not been reduced to reflect capital trust securities held by Lifeco of $175 million principal amount ($167 million carrying value).

NOTE 18. RISK MANAGEMENT (continued)

IGM's liquidity management practices include: controls over liquidity management processes; stress testing of various operating scenarios; and oversight over liquidity management by committees of the board of directors of IGM.

For IGM, a key liquidity requirement is the funding of commissions paid on the sale of mutual funds. The payment of commissions continues to be fully funded through ongoing cash flow from operations.

IGM also maintains sufficient liquidity to fund and temporarily hold mortgages. Through its mortgage banking operations, residential mortgages are funded primarily through sales to third parties, including Canada Mortgage and Housing Corporation (CMHC) or Canadian bank-sponsored securitization trusts, private placements to institutional investors, or placed with Investors Mortgage and Short-Term Income fund or Investors Group's intermediary operations. During the second quarter of 2008, IGM was approved by CMHC as an issuer of National Housing Act mortgage-backed securities (NHA MBS) and as a seller into the Canada Mortgage Bond Program (CMB Program). All mortgages are sold on a fully serviced basis. This issuer and seller status provides IGM with additional funding sources for residential mortgages. IGM's continued ability to fund residential mortgages through Canadian bank-sponsored securitization trusts and NHA MBS is dependent on securitization market conditions that are subject to change.

Liquidity requirements for trust subsidiaries which engage in financial intermediary activities are based on policies approved by the investment and conduct review committees of their respective boards of directors. As at December 31, 2008, liquidity for the trust subsidiaries was in compliance with these policies.

IGM's contractual maturities were as follows:

As at December 31, 2008	Demand	Less than 1 year	1–5 years	After 5 years	Total
Deposits and certificates	**727**	**112**	**115**	**5**	**959**
Long-term debt	–	–	**450**	**750**	**1,200**
Bankers' acceptances	–	–	**287**	–	**287**
Preferred shares	–	–	**360**	–	**360**
Other liabilities	–	**109**	**133**	–	**242**
Operation leases	–	**42**	**110**	**96**	**248**
Total contractual obligations	**727**	**263**	**1,455**	**851**	**3,296**

In addition to IGM's current balance of cash and cash equivalents, other potential sources of liquidity include IGM's lines of credit and portfolio of securities. IGM increased its operating lines of credit with various Schedule I Canadian chartered banks to $475 million as at December 31, 2008, from $260 million as at December 31, 2007. The operating lines of credit as at December 31, 2008 consist of committed lines of credit of $300 million (2007 – nil) and uncommitted lines of $175 million (2007 – $260 million). As at December 31, 2008, IGM had utilized $100 million of its uncommitted operating lines of credit, unchanged from December 31, 2007. Interest expense related to the lines of credit is based on bankers' acceptance rates.

In connection with the acquisition of Saxon (refer to Note 2) on September 25, 2008, IGM maintains a non-revolving bridge credit facility with a Schedule I chartered bank totalling $287 million. At December 31, 2008, IGM had utilized $287 million. The credit facility is due October 27, 2009 but may, at IGM's option, be extended to April 2010.

IGM can access the domestic debt and equity markets to raise capital, however, its ability to access capital markets to raise funds is dependent on market conditions which have been adversely affected by the current conditions.

Management of IGM believes cash flows from operations, available cash balances and other sources of liquidity described above will be sufficient to fund IGM's liquidity needs. IGM's liquidity position and its management of liquidity risk have not changed materially since December 31, 2007.

CREDIT RISK

Credit risk is the potential for financial loss to the Corporation and its subsidiaries if a counterparty in a transaction fails to meet its obligations.

For Power Financial, cash and cash equivalents and derivatives are subject to credit risk. The Corporation monitors its credit risk management policies continuously to evaluate their effectiveness.

NOTE 18. RISK MANAGEMENT (continued)

Cash and cash equivalents primarily consist of highly liquid temporary deposits with Canadian chartered banks as well as bankers' acceptances and short-term securities guaranteed by the Canadian government. The Corporation regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value. The Corporation mitigates credit risk on these financial instruments by adhering to its Investment Policy, which outlines credit risk parameters and concentration limits.

The Corporation regularly reviews the credit ratings of derivative financial instrument counterparties. Derivative contracts are over-the-counter traded with counterparties that are highly rated financial institutions. The exposure to credit risk is limited to the fair value of those instruments, which was nil at December 31, 2008.

For Lifeco, the following policies and procedures are in place to manage credit risk:

› Investment guidelines are in place that require only the purchase of investment-grade assets and minimize undue concentration of assets in any single geographic area, industry and company.

› Investment guidelines specify minimum and maximum limits for each asset class. Credit ratings are determined by recognized external credit rating agencies and/or internal credit review.

› Investment guidelines also specify collateral requirements.

› Portfolios are monitored continuously and reviewed regularly with the board of directors of Lifeco or the investment committees of the boards of directors of Lifeco.

› Credit risk associated with derivative instruments is evaluated quarterly on conditions that existed at the balance sheet date, using practices that are at least as conservative as those recommended by regulators.

› Lifeco is exposed to credit risk relating to premiums due from policyholders during the grace period specified by the insurance policy or until the policy is paid up or terminated. Commissions paid to agents and brokers are netted against amounts receivable, if any.

› Reinsurance is placed with counterparties that have a good credit rating and concentration of credit risk is managed by following policy guidelines set each year by the board of directors of Lifeco. Management of Lifeco continuously monitors and performs an assessment of creditworthiness of reinsurers.

Maximum Exposure to Credit Risk for Lifeco

The following table summarizes Lifeco's maximum exposure to credit risk related to financial instruments. The maximum credit exposure is the carrying value of the asset net of any allowances for losses.

As at December 31	**2008**	2007
Cash and cash equivalents	**2,850**	3,650
Bonds		
Held for trading	**51,201**	52,224
Available for sale	**5,645**	4,045
Amortized cost	**9,708**	8,800
Mortgage loans	**17,444**	15,869
Loans to policyholders	**7,622**	6,317
Other financial assets	**15,004**	4,661
Derivative assets	**677**	924
Total balance sheet maximum credit exposure	**110,151**	96,490

Credit risk is also mitigated by entering into collateral agreements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Management of Lifeco monitors the value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable.

NOTE 18. RISK MANAGEMENT (continued)

Concentration of Credit Risk for Lifeco

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics in that they operate in the same geographic region or in similar industries. The characteristics are similar in that changes in economic or political environments may impact their ability to meet obligations as they come due.

The following table provides details of the carrying value of bonds of Lifeco by industry sector and geographic distribution:

As at December 31, 2008	
Bonds issued or guaranteed by:	
Canadian federal government	**1,867**
Canadian provincial and municipal governments	**6,029**
U.S. Treasury and other U.S. agencies	**4,968**
Other foreign governments	**6,854**
Government-related	**1,563**
Sovereign	**1,739**
Asset-backed securities	**7,243**
Residential mortgage-backed securities	**1,156**
Banks	**5,070**
Other financial institutions	**3,602**
Basic materials	**870**
Communications	**1,220**
Consumer products	**4,104**
Industrial products/services	**1,985**
Natural resources	**1,813**
Real estate	**1,645**
Transportation	**2,497**
Utilities	**7,068**
Miscellaneous	**1,866**
Total long-term bonds	**63,159**
Short-term bonds	**3,395**
Total bonds	**66,554**
Canada	**26,231**
United States	**17,703**
Europe/Reinsurance	**22,620**
Total bonds	**66,554**

The following table provides details of the carrying value of mortgage loans of Lifeco by geographic location:

As at December 31, 2008	Single-family residential	Multi-family residential	Commercial	Total
Canada	**1,850**	**4,524**	**6,144**	**12,518**
United States	–	**576**	**1,581**	**2,157**
Europe/Reinsurance	–	**36**	**2,733**	**2,769**
Total mortgages	**1,850**	**5,136**	**10,458**	**17,444**

As at December 31, 2007	Single-family residential	Multi-family residential	Commercial	Total
Canada	1,794	4,783	5,403	11,980
United States	–	514	1,125	1,639
Europe/Reinsurance	–	30	2,220	2,250
Total mortgages	1,794	5,327	8,748	15,869

NOTE 18. RISK MANAGEMENT (continued)

Asset Quality

Bond Portfolio Quality

As at December 31	2008	2007
AAA	**25,138**	28,134
AA	**10,765**	10,886
A	**18,030**	16,451
BBB	**8,809**	7,451
BB and lower	**417**	457
	63,159	63,379
Short-term bonds	**3,395**	1,690
Total bonds	**66,554**	65,069

Derivative Portfolio Quality

As at December 31	2008	2007
Over-the-counter contracts (counterparty ratings):		
AAA	**19**	–
AA	**165**	598
A	**468**	375
Total	**652**	973

Loans of Lifeco past due, but not impaired

Loans that are past due but not considered impaired are loans for which scheduled payments have not been received, but management has reasonable assurance of timely collection of the full amount of principal and interest due. The following table provides carrying values of the loans past due, but not impaired:

	2008	2007
Less than 30 days	**50**	87
30 – 90 days	**4**	2
90 days and greater	**1**	1
Total	**55**	90

For IGM, cash and cash equivalents, securities holdings, mortgage and investment loan portfolios, and derivatives are subject to credit risk. IGM monitors its credit risk management policies continuously to evaluate their effectiveness.

With respect to IGM, at December 31, 2008, cash and cash equivalents of $1.2 billion consisted of cash balances of $119 million on deposit with Canadian chartered banks and cash equivalents of $1.1 billion. Cash equivalents consist of Government of Canada treasury bills totalling $436 million, provincial government and government-guaranteed commercial paper of $161 million and bankers' acceptances issued by Canadian chartered banks of $516 million. IGM regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value. IGM mitigates credit risk on these financial instruments by adhering to its Investment Policy that outlines credit risk parameters and concentration limits.

With respect to IGM, fixed income securities at December 31, 2008 include $192 million of Canadian chartered bank senior deposit notes and bankers' acceptances. The maximum exposure to credit risk on these financial instruments is their carrying value. IGM mitigates credit risk on these financial instruments by adhering to its Investment Policy that outlines credit risk parameters and concentration limits. Fixed income securities also include non-bank-sponsored ABCP, which totalled $35 million net of impairment charges and represents the maximum exposure to credit risk at December 31, 2008.

NOTE 18. RISK MANAGEMENT (continued)

IGM regularly reviews the credit quality of the mortgage and investment loan portfolios and the adequacy of the general allowance. As at December 31, 2008, mortgages and investment loans totalled $287 million and $311 million, respectively. The allowance for credit losses of $8 million at December 31, 2008 exceeded impaired mortgages and investment loans by $8 million. As at December 31, 2008, the mortgage portfolios were geographically diverse, 100% residential and 64% insured. The credit risk on the investment loan portfolio is mitigated through the use of collateral, primarily in the form of mutual fund investments. Uninsured non-performing loans over 90 days in the mortgage and investment loan portfolios were $1 million at December 31, 2008, unchanged from December 31, 2007 levels. The characteristics of the mortgage and investment loan portfolios have not changed significantly during 2008.

IGM's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and mortgage and investment loan portfolios have not changed materially since December 31, 2007.

IGM regularly reviews the credit quality of the mortgage loans securitized through CMHC or Canadian bank-sponsored (Schedule I chartered banks) securitization trusts. The maximum exposure to credit risk attributable to securitized mortgage loans is equal to the value of the retained interests in the securitized loans, which was $217 million at December 31, 2008, compared to $48 million in 2007. Retained interests include:

› Cash reserve accounts and rights to future excess spread, which totalled $80 million at December 31, 2008. This portion of the retained interest is subordinated to the interests of the related CMHC or Canadian bank-sponsored securitization trusts and represents the maximum exposure to credit risk for any failure of the borrowers to pay when due. Securitized mortgage loans serviced totalled $2.9 billion at December 31, 2008, compared to $2.23 billion in 2007. Uninsured non-performing loans over 90 days in these portfolios was nil at December 31, 2008, compared to nil at December 31, 2007. IGM's exposure to credit risk related to cash reserve accounts and rights to future excess spread was not significant at December 31, 2008.

› Fair value of interest rate swaps entered into by IGM with bank-sponsored securitization trusts. The outstanding notional amount of these interest rate swaps was $3.3 billion at December 31, 2008, compared to $2.2 billion in 2007. The fair value of the interest rate swaps was $137 million and the exposure to credit risk, which is limited to the fair value of the interest rate swaps which were in a gain position, totalled $154 million at December 31, 2008, compared to nil at December 31, 2007. Counterparties are all bank-sponsored securitization trusts and, as a result, management has determined that credit risk related to these interest rate swaps was not significant at December 31, 2008.

IGM also regularly reviews the credit ratings of derivative financial instrument counterparties. Derivative contracts are either exchange traded or negotiated in the over-the-counter market on a diversified basis with Schedule I chartered banks.

The outstanding notional amount of derivative contracts, excluding interest rates swaps negotiated with bank-sponsored securitization trusts discussed above was $2.7 billion at December 31, 2008, compared to $2.2 billion at December 31, 2007. The increase in the notional amount related primarily to interest rates swaps utilized in IGM's mortgage banking operations. The exposure to credit risk, which is limited to the fair value of those instruments which were in a gain position, increased to $39 million at December 31, 2008, from $16 million at December 31, 2007, primarily due to the increase in the notional amount interest rate swaps and to changes in interest rates during 2008. This does not give effect to any netting agreements or collateral arrangements. IGM's exposure to credit risk attributable to derivative contracts which were in a gain position increased significantly in 2008. In all cases, counterparties for derivatives are Canadian Schedule I chartered banks and, as a result, management of IGM has determined that IGM's overall credit risk is not significant at December 31, 2008. Management of credit risk has not changed materially since December 31, 2007.

NOTE 18. RISK MANAGEMENT (continued)

MARKET RISK

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors. Market factors include three types of risks: currency risk, interest rate risk and equity risk.

Currency Risk Currency risk relates to the Corporation, its subsidiaries and its investment at equity operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

Power Financial's financial assets are essentially cash and cash equivalents. In managing its own cash and cash equivalents, Power Financial may hold cash balances denominated in foreign currencies and thus be exposed to fluctuations in exchange rates. In order to protect against such fluctuations, Power Financial may from time to time enter into currency-hedging transactions with highly rated financial institutions. As at December 31, 2008, all of its cash and cash equivalents were denominated in Canadian dollars or, to a small extent, in foreign currencies.

For Lifeco, the following policies and procedures are in place to mitigate exposure to currency risk:

- Lifeco uses financial measures such as constant currency calculations to monitor the effect of currency translation fluctuations.
- Investments are normally made in the same currency as the liabilities supported by those investments.
- Foreign currency assets acquired to back liabilities are normally converted back to the currency of the liability using foreign exchange contracts.
- A 10% increase or decrease in foreign currency rates would be expected to have minimal impact on non-participating actuarial liabilities.

IGM's financial instruments are generally denominated in Canadian dollars, and do not have significant exposure to changes in foreign exchange rates.

Interest Rate Risk Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market interest rates.

Power Financial's financial instruments are essentially cash and cash equivalents and long-term debt that do not have significant exposure to interest rate risk.

For Lifeco, the following policies and procedures are in place to mitigate the exposure to interest rate risk:

- Lifeco utilizes a formal process for managing the matching of assets and liabilities. This involves grouping general fund assets and liabilities into segments. Assets in each segment are managed in relation to the liabilities in the segment.
- Interest rate risk is managed by investing in assets that are suitable for the products sold.
- For products with fixed and highly predictable benefit payments, investments are made in fixed income assets that closely match the liability product cash flows. Protection against interest rate change is achieved as any change in the fair market value of the assets will be offset by a similar change in the fair market value of the liabilities.
- For products with less predictable timing of benefit payments, investments are made in fixed income assets with cash flows of a shorter duration than the anticipated timing of benefit payments or equities, as described below.
- The risk associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure and the pace of asset acquisition are quantified and reviewed regularly.

Projected cash flows from the current assets and liabilities are used in the CALM to determine actuarial liabilities. Cash flows from assets are reduced to provide for potential asset default losses. Testing under several interest rate scenarios (including increasing and decreasing rates) is done to assess reinvestment risk.

One way of measuring the interest rate risk associated with this assumption is to determine the effect on the present value of the projected net asset and liability cash flows of the non-participating business of Lifeco of an immediate and permanent 1% increase and 1% decrease in interest rates at each future duration. These interest rate changes will impact the projected cash flows.

- The effect of an immediate and permanent 1% increase in interest rates at each future duration would be to decrease the present value of these net projected cash flows by approximately $31 million.
- The effect of an immediate and permanent 1% decrease in interest rates at each future duration would be to decrease the present value of these net projected cash flows by approximately $149 million.

NOTE 18. RISK MANAGEMENT (continued)

IGM is exposed to interest rate risk on its loan portfolio and on certain of the derivative financial instruments used in its mortgage banking and intermediary operations. The objective of IGM's asset liability management is to control interest rate risk by actively managing its interest rate exposure. As at December 31, 2008, the total gap between one-year deposit assets and liabilities was within IGM's stated guidelines. IGM utilizes interest rate swaps in order to reduce the impact of fluctuating interest rates on its mortgage banking and intermediary operations. As part of the securitization transaction with a bank-sponsored securitization trust, IGM enters into interest rate swaps with the trust which transfers the interest rate risk to IGM. IGM is also exposed to relative movements in short-term borrowing costs. Under securitization transactions with bank-sponsored securitization trusts, IGM is exposed to ABCP rates. Changes in the relationship between ABCP rates and one-month BA rates may result in fluctuation in the value of these interest rate swaps. As part of the securitization transactions under the CMB Program, IGM enters into interest rate swaps with Schedule I chartered bank counterparties that transfer the interest rate risk, including reinvestment risk, to IGM. To manage interest rate and reinvestment risks, IGM enters into offsetting interest rate swaps with Schedule I chartered bank counterparties to reduce the impact of fluctuating interest rates. As at December 31, 2008, the impact of a 100-basis-point change in interest rates to net earnings would have been $3 million.

Equity Risk Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. To mitigate equity risk, the Corporation and its subsidiaries have investment policy guidelines in place that provide for prudent investment in equity markets within clearly defined limits.

Power Financial's financial instruments are essentially cash and cash equivalents, and long-term debt that do not have exposure to equity price risk.

For Lifeco, some policy liabilities are supported by equities, for example, segregated fund products and products with long-tail liabilities. Generally these liabilities will fluctuate in line with equity market values. There will be additional impacts on these liabilities as equity market values fluctuate. A 10% increase in equity markets would be expected to additionally decrease non-participating actuarial liabilities by approximately $42 million. A 10% decrease in equity markets would be expected to additionally increase non-participating actuarial liabilities by approximately $245 million.

IGM is exposed to equity price risk on its securities holdings and on the related derivative financial instruments. IGM adheres to an Investment Policy that outlines the objectives, constraints and parameters relating to its investing activities. This policy prescribes limits around the quality and concentration of investments held by IGM. IGM manages its exposure to equity price risk on its corporate securities portfolio by using a variety of derivative instruments, including options and forward contracts. Management of IGM regularly reviews IGM's investments to ensure all activities are in adherence to the Investment Policy. Common shares are reviewed periodically, or more frequently when conditions warrant, to determine whether there is objective evidence of an other-than-temporary impairment in value. A significant portion of unrealized losses occurred during the latter part of 2008, reflecting the current market environment and resulting price fluctuations. IGM holds a diversified portfolio of securities that consists primarily of well-capitalized, dividend-paying Canadian common shares that are included in the S&P TSX 60 Index. IGM has the ability and intent to hold these securities for a period of time sufficient to allow for any recovery of their fair value. As at December 31, 2008, IGM concluded that the gross unrealized losses were temporary.

IGM's securities holdings are classified as available for sale, therefore unrealized gains and losses on securities that are not part of a designated hedging relationship are recorded in other comprehensive income until realized. As at December 31, 2008, the impact of a 10% decrease in equity prices would have been a $21 million (Power Financial's share – $12 million) unrealized loss recorded in other comprehensive income.

IGM's exposure to and management of interest rate risk and equity price risk has not changed materially since December 31, 2007.

NOTE 19. ACCUMULATED OTHER COMPREHENSIVE INCOME

	Unrealized gains (losses), on			
For the year ended December 31, 2008	Available-for-sale assets	Cash flow hedges	Foreign currency translation	Total
Balance, beginning of year	**1,509**	**9**	**(1,220)**	**298**
Other comprehensive income (loss)[(i)]	**(1,066)**	**(324)**	**1,344**	**(46)**
Income taxes	**122**	**114**	**–**	**236**
	(944)	**(210)**	**1,344**	**190**
Non-controlling interests	**111**	**61**	**(313)**	**(141)**
	(833)	**(149)**	**1,031**	**49**
Balance, end of year	**676**	**(140)**	**(189)**	**347**

(i) Included in the figure related to the available-for-sale assets is the reversal of an amount of $179 million representing the unrealized gain on an investment (Lafarge S.A.) that, starting in the first quarter of 2008, is accounted for under the equity method.

	Unrealized gains (losses), on			
For the year ended December 31, 2007	Available-for-sale assets	Cash flow hedges	Foreign currency translation	Total
Balance, beginning of year	1,395	(20)	(248)	1,127
Other comprehensive income (loss)	20	61	(1,370)	(1,289)
Income taxes	43	(13)	–	30
	63	48	(1,370)	(1,259)
Non-controlling interests	51	(19)	398	430
	114	29	(972)	(829)
Balance, end of year	1,509	9	(1,220)	298

NOTE 20. REINSURANCE TRANSACTIONS

On February 14, 2008, Lifeco's indirect wholly owned Irish reinsurance subsidiary, Canada Life International Re Limited, signed an agreement with Standard Life Assurance Limited, a U.K.-based provider of life, pension and investment products, to assume by way of indemnity reinsurance, a large block of U.K. payout annuities. The reinsurance transaction increased premium income, paid or credited to policyholders, funds held by ceding insurers and policyholder liabilities by approximately $12.5 billion.

During 2008, Lifeco's indirect wholly owned U.K. subsidiary, Canada Life Limited, entered into two agreements with two financial institutions to provide long-term mortality exposure management on an in-force block of payout annuity business representing $2.8 billion of actuarial liabilities. These agreements exchange variable annuitant payments for a schedule of fixed payments. One of the agreements has no end date, while the other matures in 40 years.

In 2007, Great-West Life and London Life recaptured the remaining 50% of a reinsurance agreement on certain blocks of group life and long-term disability business. The recaptured premiums of $1.574 billion associated with the transaction have been recorded in the Consolidated Statements of Earnings as an increase to premium income with a corresponding increase to the change in actuarial liabilities and provision for claims. For the Consolidated Balance Sheets, this transaction resulted in a reduction of $1.831 billion to funds held under reinsurance contracts, with a corresponding increase in policyholder liabilities.

NOTE 21. FINANCING CHARGES

	2008	2007
Interest on debentures and other borrowings	**348**	307
Preferred share dividends	**72**	72
Interest on capital trust debentures	**49**	49
Unrealized gain on preferred shares classified as held for trading	**(33)**	(40)
Distributions on capital trust securities held by the consolidated group as temporary investments	**(12)**	(12)
Other	**14**	32
	438	408

NOTE 22. OTHER INCOME (CHARGES), NET

	2008	2007
Share of Pargesa's non-operating earnings [Note 6]	**(364)**	24
Reversal of provision for dilution losses related to future exercise of stock options	**113**	–
Intangible and goodwill impairment [Note 7]	**(2,178)**	–
Restructuring costs [Note 3]	**(70)**	–
Gain resulting from dilution of the Corporation's interest in Lifeco	**97**	–
	(2,402)	24

In 2008, Pargesa recorded impairment charges on three investments. The Corporation's share of these charges is $348 million.

The Corporation also recorded an amount of $113 million related to the decrease of provision for future dilution losses which the Corporation had previously recorded in connection with stock options granted by its subsidiaries and potential dilution from convertible debentures issued by Pargesa.

NOTE 23. PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

The Corporation and its subsidiaries maintain funded defined benefit pension plans for certain employees and advisers as well as unfunded supplementary employee retirement plans (SERP) for certain executives. The Corporation's subsidiaries also maintain defined contribution pension plans for certain employees and advisers. The Corporation and its subsidiaries also provide post-retirement health, dental and life insurance benefits to eligible retirees, advisers and their dependents.

In 2008, a subsidiary of Lifeco divested a portion of its business. As a result, all of the subsidiary's defined benefit plans were partially curtailed. In accordance with accounting standards, the financial effect of the curtailment was reflected as part of the sale rather than as part of the pension and benefits expense.

CHANGES IN FAIR VALUE OF PLAN ASSETS AND IN THE ACCRUED BENEFIT OBLIGATION

		2008		2007
	Pension plans	Other post-retirement benefits	Pension plans	Other post-retirement benefits
Fair value of plan assets				
Balance, beginning of year	**3,361**		3,437	
Employee contributions	**19**		16	
Employer contributions	**48**		31	
Benefits paid	**(161)**		(146)	
Actual return on plan assets	**(518)**		121	
Other, including foreign exchange	**53**		(98)	
Balance, end of year	**2,802**		3,361	
Accrued benefit obligation				
Balance, beginning of year	**3,045**	**432**	3,283	445
Benefits paid	**(161)**	**(17)**	(146)	(18)
Current service cost	**73**	**6**	84	7
Employee contributions	**19**	**–**	16	–
Interest cost	**175**	**24**	164	23
Actuarial (gains) losses	**(416)**	**(81)**	(248)	(25)
Settlement and curtailment	**(18)**	**(10)**	–	–
Past service cost	**1**	**–**	(6)	1
Other, including foreign exchange	**90**	**5**	(102)	(1)
Balance, end of year	**2,808**	**359**	3,045	432
Funded status				
Fund surplus (deficit)(i)	**(6)**	**(359)**	316	(432)
Unamortized past service costs	**(124)**	**(62)**	(134)	(88)
Valuation allowance	**(74)**	**–**	(56)	–
Unamortized net actuarial losses (gains)	**302**	**(40)**	(42)	47
Accrued benefit asset (liability)(ii)	**98**	**(461)**	84	(473)

(i) The aggregate accrued benefit obligations and aggregate fair value of plan assets of individual pension plans that had accrued benefit obligations in excess of the fair value of their related plan assets at December 31, 2008 amounted to $688 million ($685 million in 2007) and $529 million ($595 million in 2007), respectively. In addition, the Corporation and its subsidiaries maintain unfunded supplementary executive retirement plans. The obligation for these plans, which is included above, was $275 million at December 31, 2008 ($273 million in 2007).

NOTE 23. PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS (continued)

(ii) The net accrued benefit asset (liability) shown above is presented in these financial statements as follows:

	2008			2007		
	Pension plans	Other post-retirement benefits	Total	Pension plans	Other post-retirement benefits	Total
Accrued benefit asset [Note 9]	**321**	–	**321**	274	–	274
Accrued benefit liability [Note 13]	**(223)**	**(461)**	**(684)**	(190)	(473)	(663)
Accrued benefit asset (liability)	**98**	**(461)**	**(363)**	84	(473)	(389)

COSTS RECOGNIZED

	2008		2007	
	Pension plans	Other post-retirement benefits	Pension plans	Other post-retirement benefits
Amounts arising from events in the period				
Current service cost	**73**	**6**	84	7
Interest cost	**175**	**24**	164	23
Actual return on plan assets	**518**	–	(121)	–
Past service cost	**1**	–	(6)	1
Actuarial (gains) losses on accrued benefit obligation	**(416)**	**(81)**	(248)	(25)
	351	**(51)**	(127)	6
Adjustments to reflect costs recognized				
Difference between actual and expected return on assets	**(738)**	–	(104)	–
Difference between actuarial gains (losses) arising during the period and actuarial gains (losses) amortized	**405**	**82**	256	29
Difference between past service costs arising in period and past service costs amortized	**(10)**	**(9)**	(4)	(13)
Amortization of transitional obligation	**1**	–	–	–
Decrease in valuation allowance	**18**	–	–	–
Other	**35**	–	22	–
Net cost recognized for the year	**62**	**22**	43	22

For Lifeco, certain pension payments are indexed either on an ad hoc basis or a guaranteed basis. The determination of the accrued benefit obligation reflects only pension benefits guaranteed under the terms of the plans.

MEASUREMENT AND VALUATION

The measurement dates, weighted by accrued benefit obligation, are November 30 for 92% of the plans and December 31 for 8% of the plans. The dates of actuarial valuations for funding purposes for the funded defined benefit pension plans (weighted by accrued benefit obligation) are:

Most recent valuation	% of plans	Next Required Valuation	% of plans
December 31, 2005	20	December 31, 2008	38
December 31, 2006	28	December 31, 2009	28
April 1, 2007	5	April 1, 2010	5
December 31, 2007	47	December 31, 2010	29

NOTE 23. PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS (continued)

CASH PAYMENTS

	All pension plans		Other post-retirement benefits	
	2008	2007	**2008**	2007
Benefit payments for unfunded plans	**21**	10	**17**	18
Company contributions (defined benefit and contribution plans)	**82**	40	–	–
	103	50	**17**	18

ASSET ALLOCATION BY MAJOR CATEGORY WEIGHTED BY PLAN ASSETS

	Defined benefit pension plans	
	2008	2007
	%	%
Equity securities	**46**	52
Debt securities	**45**	37
All other assets	**9**	11
	100	100

No plan assets are directly invested in the Corporation's or subsidiaries' securities. Nominal amounts may be invested in the Corporation's or subsidiaries' securities through investments in pooled funds.

SIGNIFICANT ASSUMPTIONS

	Defined benefit pension plans		Other post-retirement benefits	
	2008	2007	**2008**	2007
	%	%	**%**	%
Weighted average assumptions used to determine benefit cost				
Discount rate	**5.9**	5.1	**5.8**	5.1
Expected long-term rate of return on plan assets	**6.6**	6.7	–	–
Rate of compensation increase	**4.2**	4.1	–	–
Weighted average assumptions used to determine accrued benefit obligation				
Discount rate	**6.8**	5.9	**7.1**	5.8
Rate of compensation increase	**4.2**	4.2	–	–
Weighted average healthcare trend rates				
Initial healthcare trend rate			**7.2**	6.8
Ultimate healthcare trend rate			**5.0**	4.8
Year ultimate trend rate is reached			**2012**	2012

IMPACT OF CHANGES TO ASSUMED HEALTHCARE RATES – OTHER POST-RETIREMENT BENEFITS

	Impact on end of year accrued post-retirement benefit obligation		Impact on post-retirement benefit service and interest cost	
	2008	2007	**2008**	2007
1% increase in assumed healthcare cost trend rate	**37**	52	**4**	4
1% decrease in assumed healthcare cost trend rate	**(30)**	(42)	**(3)**	(3)

NOTE 24. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the fair value of the Corporation's financial instruments using the valuation methods and assumptions described below. Fair value represents the amount that would be exchanged in an arm's-length transaction between willing parties and is best evidenced by a quoted market price, if one exists. Fair values are management's estimates and are generally calculated using market conditions at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and matters of significant judgment.

	2008		2007	
	Carrying value	Fair value	Carrying value	Fair value
Assets				
Cash and cash equivalents	**4,689**	**4,689**	5,625	5,625
Investments (excluding real estate)	**97,816**	**97,487**	94,736	95,077
Other financial assets	**14,139**	**14,139**	4,526	4,526
Derivative financial instruments	**847**	**847**	940	940
Total financial assets	**117,491**	**117,162**	105,827	106,168
Liabilities				
Deposits and certificates	**959**	**964**	857	857
Debentures and other borrowings	**5,658**	**5,059**	6,791	7,088
Preferred shares of the Corporation	**300**	**302**	300	313
Preferred shares of subsidiaries	**1,269**	**1,275**	1,303	1,335
Other financial liabilities	**5,340**	**5,340**	5,819	5,819
Derivative financial instruments	**1,261**	**1,261**	136	136
Total financial liabilities	**14,787**	**14,201**	15,206	15,548

Fair value is determined using the following methods and assumptions:

› The fair value of short-term financial instruments approximates carrying value due to their short-term maturities. These include cash and cash equivalents, other financial assets and other financial liabilities.

› Shares and bonds are valued at quoted market prices, when available. When a quoted market price is not readily available, alternative valuation methods may be used. Mortgage loans are determined by discounting the expected future cash flows at market interest rates for loans with similar credit risk.

› Deposits and certificates are valued by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms and credit risks.

› Debentures and other borrowings are determined by reference to current market prices for debt with similar terms and risks.

› Preferred shares are valued using quoted prices from active markets.

› Derivative financial instruments, fair values are based on quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, or net present value analyses.

NOTE 25. EARNINGS PER SHARE

The following is a reconciliation of the numerators and the denominators of the basic and diluted earnings per common share computations:

For the years ended December 31	**2008**	2007
Net earnings	**1,337**	2,044
Dividends on perpetual preferred shares	**(74)**	(75)
Net earnings available to common shareholders	**1,263**	1,969
Weighted number of common shares outstanding (millions)		
– Basic	**705.0**	704.9
Exercise of stock options	**6.2**	8.3
Shares assumed to be repurchased with proceeds from exercise of stock options	**(3.3)**	(4.4)
Weighted number of common shares outstanding (millions)		
– Diluted	**707.9**	708.8

For 2008, 4,466,115 stock options (nil in 2007) that were antidilutive have been excluded from the computation of diluted earnings per share.

Basic earnings per common share ($)		
From continuing operations	**1.08**	2.58
From discontinued operations	**0.71**	0.21
	1.79	2.79
Diluted earnings per common share ($)		
From continuing operations	**1.07**	2.57
From discontinued operations	**0.71**	0.21
	1.78	2.78

NOTE 26. DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of managing exposure to fluctuations in interest rates and foreign exchange rates, and to market risks, the Corporation and its subsidiaries are end users of various derivative financial instruments. Contracts are either exchange traded or over-the-counter traded with counterparties that are credit-worthy financial intermediaries.

The following table summarizes the portfolio of derivative financial instruments of the Corporation and its subsidiaries at December 31:

2008	Notional amount 1 year or less	1 – 5 years	Over 5 years	Total	Maximum credit risk	Total estimated fair value
Interest rate contracts						
Futures – long	**119**	**–**	**–**	**119**	**–**	**–**
Futures – short	**39**	**–**	**–**	**39**	**–**	**–**
Swaps	**1,764**	**5,259**	**1,380**	**8,403**	**540**	**341**
Options purchased	**–**	**–**	**308**	**308**	**54**	**54**
	1,922	**5,259**	**1,688**	**8,869**	**594**	**395**
Foreign exchange contracts						
Forward contracts	**158**	**9**	**–**	**167**	**15**	**15**
Cross-currency swaps	**234**	**898**	**5,560**	**6,692**	**215**	**(848)**
	392	**907**	**5,560**	**6,859**	**230**	**(833)**
Other derivative contracts						
Equity contracts	**61**	**17**	**11**	**89**	**1**	**(18)**
Credit default swaps	**67**	**–**	**–**	**67**	**–**	**(2)**
Options purchased	**43**	**–**	**–**	**43**	**20**	**20**
Options written	**30**	**–**	**–**	**30**	**–**	**(1)**
	201	**17**	**11**	**229**	**21**	**(1)**
	2,515	**6,183**	**7,259**	**15,957**	**845**	**(439)**

2007	Notional amount 1 year or less	1 – 5 years	Over 5 years	Total	Maximum credit risk	Total estimated fair value
Interest rate contracts						
Futures – long	190	–	–	190	–	–
Futures – short	47	–	–	47	–	–
Swaps	1,628	3,670	1,213	6,511	137	92
Options purchased	–	–	536	536	38	38
	1,865	3,670	1,749	7,284	175	130
Foreign exchange contracts						
Forward contracts	1,574	–	–	1,574	10	(16)
Cross-currency swaps	133	934	4,472	5,539	791	766
	1,707	934	4,472	7,113	801	750
Other derivative contracts						
Equity contracts	95	15	21	131	–	(36)
Credit default swaps	–	55	–	55	–	–
Options purchased	72	36	–	108	14	14
Options written	78	24	–	102	–	(5)
	245	130	21	396	14	(27)
	3,817	4,734	6,242	14,793	990	853

NOTE 26. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The amount subject to credit risk is limited to the current fair value of the instruments which are in a gain position. The credit risk is presented without giving effect to any netting agreements or collateral arrangements and does not reflect actual or expected losses. The total estimated fair value represents the total amount that the Corporation and its subsidiaries would receive (or pay) to terminate all agreements at year-end. However, this would not result in a gain or loss to the Corporation and its subsidiaries as the derivative instruments which correlate to certain assets and liabilities provide offsetting gains or losses.

Swaps Interest rate swaps, futures and options are used as part of a portfolio of assets to manage interest rate risk associated with actuarial liabilities and to reduce the impact of fluctuating interest rates on the mortgage banking operations and intermediary operations. Interest rate swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which payments are based. Changes in fair value are recorded in net investment income in the Consolidated Statements of Earnings.

Written call options are used with interest rate swaps to effectively convert convertible, fixed rate bonds to non-convertible variable rate securities as part of the overall asset/liability matching program. The written call option hedges the Corporation's and its subsidiaries' exposure to the convertibility feature on the bonds.

Foreign exchange contracts Cross-currency swaps are used in combination with other investments to manage foreign currency risk associated with actuarial liabilities. Under these swaps principal amounts and fixed and floating interest payments may be exchanged in different currencies. The Corporation and its subsidiaries also enter into certain foreign exchange forward contracts to hedge certain product liabilities and to hedge a portion of the translation of the net investment in their foreign operations.

Other derivative contracts Equity index swaps, futures and options are used to hedge certain product liabilities. Equity index swaps are also used as substitutes for cash instruments and are used to hedge the market risk associated with certain fee income.

Lifeco uses credit derivatives to manage its credit exposure and for risk diversification in its investment portfolio.

IGM manages its exposure to market risk on its securities by either entering into forward sale contracts, purchasing a put option or by simultaneously purchasing a put option and writing a call option on the same security.

NOTE 27. CONTINGENT LIABILITIES

The Corporation's subsidiaries are from time to time subject to legal actions, including arbitrations and class actions, arising in the normal course of business. It is not expected that any of these legal actions will have a material adverse effect on the consolidated financial position of the Corporation.

In addition, there are proposed class proceedings in Ontario regarding the participation of the London Life and Great-West Life participating accounts in the financing of the acquisition of London Insurance Group in 1997 by Great-West Life. It is difficult to predict the outcome of these proceedings with certainty. However, based on information presently known, Lifeco does not expect these proceedings to have a material adverse effect on its consolidated financial position.

Subsidiaries of Lifeco have declared partial windups in respect of certain Ontario defined benefit pension plans which will not likely be completed for some time. The partial windups could involve the distribution of the amount of actuarial surplus, if any, attributable to the wound-up portion of the plans. However, many issues remain unclear, including the basis of surplus measurement and entitlement, and the method by which any surplus distribution would be implemented. In addition to the regulatory proceedings involving these partial windups, related proposed class action proceedings have been commenced in Ontario related to one of the partial windups. In the third quarter of 2007, Lifeco's subsidiaries established provisions for certain Canadian retirement plans in the amount of $97 million after tax. Actual results could differ from these estimates.

A subsidiary of Lifeco is involved in an ongoing arbitration relating to the interpretation of certain provisions of reinsurance treaties. In addition, certain reinsurance client loss statements relating to other reinsurance treaties are in dispute and may become subject to arbitration or other legal action in the future. While there is retrocession coverage in place for these other treaties, payment of amounts due under these retrocession treaties is contingent upon collection by the retrocessionaire under a separate financial arrangement with another party. Lifeco understands that the provisions of this separate financial arrangement are also in dispute. Lifeco's subsidiary has established an actuarial provision for these two matters. Based on information presently known, it is difficult to predict the outcome of these matters with certainty. Lifeco does not expect these matters to have a material adverse effect on its consolidated financial position.

Legal proceedings have been commenced against a private equity vehicle in which subsidiaries of Lifeco have an ownership interest. Another subsidiary of Lifeco has established a provision related to these legal proceedings. Actual results could differ from these estimates. These proceedings are in their early stages and it is difficult to predict the outcome with certainty. Based on information presently known, Lifeco does not expect these proceedings to have a material adverse effect on its consolidated financial position.

In connection with the acquisition of its subsidiary Putnam, Lifeco has an indemnity from a third party against liabilities arising from certain litigation and regulatory actions involving Putnam. Putnam continues to have potential liability for these matters in the event the indemnity is not honoured. Lifeco expects the indemnity will continue to be honoured and that any liability of Putnam would not have a material adverse effect on its consolidated financial position.

IGM is subject to legal actions, including class actions, arising in the normal course of its business. Two class actions related to alleged market timing trading activity in mutual funds of IGM are continuing. Investors Group entered into settlement agreements in 2004 with a number of its securities regulators in respect of such market timing trading activity. Although it is difficult to predict the outcome of such legal actions, based on current knowledge and consultation with legal counsel, management of IGM does not expect the outcome of any of these matters, individually or in aggregate, to have a material adverse effect on its consolidated financial position.

NOTE 28. COMMITMENTS AND GUARANTEES

GUARANTEES

In the normal course of operations, the Corporation and its subsidiaries execute agreements that provide for indemnifications to third parties in transactions such as business dispositions, business acquisitions, loans and securitization transactions. The Corporation and its subsidiaries have also agreed to indemnify their directors and certain of their officers. The nature of these agreements precludes the possibility of making a reasonable estimate of the maximum potential amount the Corporation and its subsidiaries could be required to pay third parties as the agreements often do not specify a maximum amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined. Historically, the Corporation has not made any payments under such indemnification agreements. No amounts have been accrued related to these agreements.

SYNDICATED LETTERS OF CREDIT

Clients residing in the United States are required pursuant to their insurance laws to obtain letters of credit issued on LRG's behalf, from approved banks in order to further secure LRG's obligations under certain reinsurance contracts.

LRG has a syndicated letter of credit facility providing US$650 million in letters of credit capacity. The facility was arranged in 2005 for a five-year term expiring November 15, 2010. Under the terms and conditions of the facility, collateralization may be required if a default under the letter of credit agreement occurs. LRG has issued US$622 million in letters of credit under the facility as at December 31, 2008 (US$591 million at December 31, 2007).

In addition, LRG has other bilateral letter of credit facilities totalling US$18 million (US$18 million in 2007). LRG issued US$7 million in letters of credit under these facilities as of December 31, 2008.

PLEDGING OF ASSETS

With respect to Lifeco, the amounts of assets which have a security interest by way of pledging is $8 million ($7 million in 2007) in respect of derivative transactions and $600 million ($733 million in 2007) in respect of reinsurance agreements.

COMMITMENTS

The Corporation and its subsidiaries enter into operating leases for office space and certain equipment used in the normal course of operations. Lease payments are charged to operations over the period of use. The future minimum lease payments in aggregate and by year are as follows:

	2009	2010	2011	2012	2013	2014 and thereafter	Total
Future lease payments	156	129	103	88	70	303	848

NOTE 29. SEGMENTED INFORMATION

The following strategic business units constitute the Corporation's reportable operating segments:

› Lifeco offers, in Canada, the United States and in Europe, a wide range of life insurance, retirement and investment products, as well as reinsurance and specialty general insurance products to individuals, businesses and other private and public organizations.

› IGM offers a comprehensive package of financial planning services and investment products to its client base. IGM derives its revenues from a range of sources, but primarily from management fees, which are charged to its mutual funds for investment advisory and management services. IGM also earns revenue from fees charged to its mutual funds for administrative services.

› Parjointco holds the Corporation's interest in Pargesa, a holding company which holds diversified interests in companies based in Europe active in various sectors, including specialty minerals, water, waste services, energy, and wines and spirits.

› The segment entitled Other is made up of corporate activities of the Corporation and also includes consolidation elimination entries.

The accounting policies of the operating segments are those described in the summary of significant accounting policies. The Corporation evaluates the performance based on the operating segment's contribution to consolidated net earnings. Revenues and assets are attributed to geographic areas based on the point of origin of revenues and the location of assets. The contribution to consolidated net earnings of each segment is calculated after taking into account the investment Lifeco and IGM have in each other.

NOTE 29. SEGMENTED INFORMATION (continued)

INFORMATION ON PROFIT MEASURE

December 31, 2008	Lifeco	IGM	Parjointco	Other	Total
Revenues					
Premium income	30,007	–	–	–	30,007
Net investment income					
Regular net investment income	5,962	202	–	(50)	6,114
Change in fair value on held-for-trading assets	(5,161)	–	–	–	(5,161)
	801	202	–	(50)	953
Fee income	3,124	2,503	–	(87)	5,540
	33,932	2,705	–	(137)	36,500
Expenses					
Policyholder benefits, dividends and experience refunds, and change in actuarial liabilities	26,774	–	–	–	26,774
Commissions	1,353	906	–	(87)	2,172
Operating expenses	2,886	648	–	71	3,605
Financing charges	296	91	–	51	438
	31,309	1,645	–	35	32,989
	2,623	1,060	–	(172)	3,511
Share of earnings of investment at equity	–	–	183	–	183
Other income (charges), net	(2,248)	–	(364)	210	(2,402)
Earnings from continuing operations before income taxes and non-controlling interests	375	1,060	(181)	38	1,292
Income taxes	(278)	293	–	1	16
Non-controlling interests	174	355	–	(87)	442
Contribution to consolidated earnings from continuing operations	479	412	(181)	124	834
Contribution to consolidated earnings from discontinued operations	503	–	–	–	503
Contribution to consolidated net earnings	982	412	(181)	124	1,337

INFORMATION ON ASSET MEASURE

December 31, 2008	Lifeco	IGM	Parjointco	Other	Total
Goodwill	5,862	2,751	–	–	8,613
Total assets	130,074	8,234	2,814	396	141,518
Assets under administration	208,870	101,742	–	–	310,612

GEOGRAPHIC INFORMATION

December 31, 2008	Canada	United States	Europe	Total
Revenues	11,986	4,184	20,330	36,500
Investment at equity	–	–	2,814	2,814
Goodwill and intangible assets	9,271	2,102	1,722	13,095
Total assets	61,804	31,923	47,791	141,518
Assets under administration	141,984	146,774	21,854	310,612

NOTE 29. SEGMENTED INFORMATION (continued)

INFORMATION ON PROFIT MEASURE

December 31, 2007	Lifeco	IGM	Parjointco	Other	Total
Revenues					
Premium income	18,753	–	–	–	18,753
Net investment income					
Regular net investment income	5,565	194	–	(72)	5,687
Change in fair value on held-for-trading assets	(1,098)	–	–	–	(1,098)
	4,467	194	–	(72)	4,589
Fee income	2,703	2,701	–	(77)	5,327
	25,923	2,895	–	(149)	28,669
Expenses					
Policyholder benefits, dividends and experience refunds, and change in actuarial liabilities	19,122	–	–	–	19,122
Commissions	1,366	947	–	(77)	2,236
Operating expenses	2,517	623	–	59	3,199
Financing charges	269	88	–	51	408
	23,274	1,658	–	33	24,965
	2,649	1,237	–	(182)	3,704
Share of earnings of investment at equity	–	–	145	–	145
Other income (charges), net	–	–	26	(2)	24
Earnings from continuing operations before income taxes and non-controlling interests	2,649	1,237	171	(184)	3,873
Income taxes	582	355	–	1	938
Non-controlling interests	766	391	–	(118)	1,039
Contribution to consolidated earnings from continuing operations	1,301	491	171	(67)	1,896
Contribution to consolidated earnings from discontinued operations	148	–	–	–	148
Contribution to consolidated net earnings	1,449	491	171	(67)	2,044

INFORMATION ON ASSET MEASURE

December 31, 2007	Lifeco	IGM	Parjointco	Other	Total
Goodwill	6,740	2,490	–	–	9,230
Total assets	118,194	7,859	3,503	558	130,114
Assets under administration	268,343	122,982	–	–	391,325

GEOGRAPHIC INFORMATION

December 31, 2007	Canada	United States	Europe	Total
Revenues	14,835	4,190	9,644	28,669
Investment at equity	–	–	3,503	3,503
Goodwill and intangible assets	8,930	3,519	1,727	14,176
Total assets	60,894	29,700	39,520	130,114
Assets under administration	171,346	194,297	25,682	391,325

AUDITORS' REPORT

TO THE SHAREHOLDERS OF POWER FINANCIAL CORPORATION

We have audited the consolidated balance sheets of Power Financial Corporation as at December 31, 2008 and 2007 and the consolidated statements of earnings, comprehensive income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP[1]

March 11, 2009

[1] Chartered accountant auditor permit n° 18383

POWER FINANCIAL CORPORATION

FIVE-YEAR FINANCIAL SUMMARY

December 31 [in millions of dollars, except per share amounts]	**2008**	2007	2006	2005	2004
Consolidated Balance Sheets					
Cash and cash equivalents	**4,689**	5,625	5,114	4,642	3,623
Consolidated assets	**141,518**	130,114	130,486	110,896	104,179
Shareholders' equity	**13,419**	12,865	11,422	9,398	8,684
Consolidated assets and assets under administration	**452,130**	521,439	341,903	287,654	260,840
Consolidated Statements of Earnings					
Revenues					
Premium income	**30,007**	18,753	17,752	15,410	14,140
Net investment income	**953**	4,589	5,962	5,420	5,413
Fee income	**5,540**	5,327	4,223	3,733	3,370
	36,500	28,669	27,937	24,563	22,923
Expenses					
Policyholder benefits, dividends and experience refunds, and change in actuarial liabilities	**26,774**	19,122	19,660	17,019	15,679
Commissions	**2,172**	2,236	2,024	1,804	1,711
Operating expenses	**3,605**	3,199	2,575	2,457	2,437
Financial charges	**438**	408	338	330	354
	32,989	24,965	24,597	21,610	20,199
	3,511	3,704	3,340	2,953	2,724
Share of earnings of investment at equity	**183**	145	126	121	126
Other income (charges), net	**(2,402)**	24	345	(11)	(35)
Income taxes	**16**	938	844	777	710
Non-controlling interests	**442**	1,039	952	799	734
Earnings from continuing operations	**834**	1,896	2,015	1,487	1,371
Earnings from discontinued operations	**503**	148	140	174	172
Net earnings	**1,337**	2,044	2,155	1,661	1,543
Per share					
Operating earnings before non-recurring items and discontinued operations	**1.98**	2.63	2.26	2.08	1.87
Net earnings from discontinued operations	**0.71**	0.21	0.20	0.25	0.24
Net earnings	**1.79**	2.79	2.96	2.28	2.12
Dividends	**1.3325**	1.1600	1.0000	0.8700	0.7300
Book value at year-end	**16.80**	16.26	14.22	11.63	10.97
Market Price					
High	**40.94**	42.69	38.72	35.50	32.16
Low	**20.33**	35.81	30.20	29.76	24.33
Year-end	**23.90**	40.77	37.69	33.40	31.99

QUARTERLY FINANCIAL INFORMATION

[in million of dollars, except per share amounts] (unaudited)	Total revenues	Net earnings	Earnings per share – basic	Earnings per share – diluted
2008				
First quarter	**18,681**	**586**	**0.80**	**0.80**
Second quarter	**6,061**	**1,067**	**1.49**	**1.48**
Third quarter	**4,623**	**457**	**0.62**	**0.62**
Fourth quarter	**7,135**	**(773)**	**(1.12)**	**(1.12)**
2007				
First quarter	7,557	482	0.66	0.65
Second quarter	4,790	573	0.79	0.78
Third quarter	6,894	457	0.62	0.62
Fourth quarter	9,428	532	0.73	0.72

GREAT-WEST LIFECO INC.

PART B

Please note that the bottom of each page in Part B contains two different page numbers. A page number with the prefix "B" refers to the number of such page in this document and the page number without any prefix refers to the number of such page in the original document issued by Great-West Lifeco Inc.

The attached documents concerning Great-West Lifeco Inc. are documents prepared and publicly disclosed by such subsidiary. Certain statements in the attached documents, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the current expectations of the subsidiary as set forth therein. Forward-looking statements are provided for the purposes of assisting the reader in understanding the subsidiary's financial position and results of operations as at and for the periods ended on certain dates and to present information about the subsidiary's management's current expectations and plans relating to the future and the reader is cautioned that such statements may not be appropriate for other purposes.

By its nature, forward-looking information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved.

For further information provided by the subsidiary as to the material factors that could cause actual results to differ materially from the content of forward-looking statements and the material factors and assumptions that were applied in making the forward-looking statements, please see the attached documents, including the section entitled Cautionary Note Regarding Forward-Looking Information. The reader is cautioned to consider these factors and assumptions carefully and not to put undue reliance on forward-looking statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) presents management's view of the financial condition, results of operations and cash flows of Great-West Lifeco Inc. (Lifeco or the Company) for the three months and twelve months ended December 31, 2008 compared with the same periods in 2007. The MD&A provides an overall discussion, followed by analysis of the performance of its three major reportable segments: Canada, United States and Europe.

Businesses of Lifeco

Lifeco has operations in Canada, the United States, Europe and Asia through The Great-West Life Assurance Company (Great-West Life), London Life Insurance Company (London Life), The Canada Life Assurance Company (Canada Life), Great-West Life & Annuity Insurance Company (GWL&A), and commencing August 3, 2007, Putnam Investments, LLC (Putnam).

In Canada, Great-West Life and its operating subsidiaries, London Life and Canada Life (owned through holding companies London Insurance Group Inc. (LIG) and Canada Life Financial Corporation (CLFC), respectively), offer a broad portfolio of financial and benefit plan solutions for individuals, families, businesses and organizations, through a network of Freedom 55 Financial™ and Great-West Life financial security advisors, and through a multi-channel network of brokers, advisors and financial institutions.

In the U.S., GWL&A is a leader in meeting the retirement income needs of employees in the public/non-profit and corporate sectors. It serves its customers nationwide through a range of financial products and services marketed through brokers, consultants and group representatives, and through other financial institutions. Putnam provides investment management, certain administrative functions, distribution, and related services through a broad range of investment products, including the Putnam Funds, its own family of mutual funds which are offered to individual and institutional investors.

In Europe, Canada Life is broadly organized along geographically defined market segments and offers protection and wealth management products, including payout annuity products, and reinsurance. The Europe segment is comprised of two distinct business units: Insurance & Annuities, which consists of operations in the United Kingdom, Isle of Man, Ireland and Germany; and Reinsurance, which operates primarily in the United States, Barbados and Ireland. Reinsurance products are provided through Canada Life, London Reinsurance Group Inc. (LRG) and their subsidiaries.

Lifeco currently has no other holdings and carries on no business or activities unrelated to its holdings in Great-West Life, GWL&A, Putnam and their subsidiaries. Lifeco is not restricted to investing in the shares of Great-West Life, GWL&A, Putnam and their subsidiaries and may make other investments in the future.

Discontinued Operations

On April 1, 2008, Lifeco announced that GWL&A completed the sale of its health care business, Great-West Healthcare. As part of the transaction, GWL&A received consideration of US$1.5 billion in gross proceeds, and approximately US$750 million, representing the amount of equity invested in the health care business, was made available for other purposes. The sale proceeds and the equity invested were applied to outstanding short term credit facilities and a term loan.

The operating results and assets and liabilities of the health care business have been treated as discontinued operations in the financial statements of the Company. As a result, amounts pertaining to the discontinued U.S. Healthcare operations have been removed from the financial statements for 2008 and 2007. Net income from discontinued operations is shown as a separate line item on the Summaries of Consolidated Operations. In this MD&A, unless otherwise indicated, comparative amounts for 2007 have been restated to exclude amounts pertaining to Discontinued Operations.

Basis of Presentation and Summary of Accounting Policies

The consolidated financial statements of Lifeco, which are the basis for data presented in this report, have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are presented in Canadian dollars unless otherwise indicated.

Cautionary Note Regarding Forward-Looking Information

This report contains some forward-looking statements about the Company, including its business operations, strategy and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" or negative versions thereof and similar expressions. In addition, any statement that may be made concerning future financial performance (including revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future action by the Company, including statements made by the Company with respect to the expected benefits of acquisitions or divestitures, are also forward-looking statements. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the financial services industry generally, including the insurance and mutual fund industries. They are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied by forward-looking statements made by the Company due to, but not limited to, important factors such as sales levels, premium income, fee income, expense levels, mortality experience, morbidity experience, policy lapse rates and taxes, as well as general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, catastrophic events, and the Company's ability to complete strategic transactions and integrate acquisitions. The reader is cautioned that the foregoing list of important factors is not exhaustive, and there may be other factors, including factors set out herein under "Risk Management and Control Practices", and any listed in other filings with securities regulators, which are available for review at www.sedar.com. The reader is also cautioned to consider these and other factors carefully and to not place undue reliance on forward-looking statements. Other than as specifically required by applicable law, the Company has no intention to update any forward-looking statements whether as a result of new information, future events or otherwise.

Cautionary Note Regarding Non-GAAP Financial Measures

This report contains some non-GAAP financial measures. Terms by which non-GAAP financial measures are identified include, but are not limited to, "earnings before restructuring charges", "adjusted net income", "net income – adjusted", "earnings before adjustments", "constant currency basis", "premiums and deposits", "sales", and other similar expressions. Non-GAAP financial measures are used to provide management and investors with additional measures of performance. However, non-GAAP financial measures do not have standard meanings prescribed by GAAP and are not directly comparable to similar measures used by other companies. Refer to the appropriate reconciliations of these non-GAAP financial measures to measures prescribed by GAAP.

CONSOLIDATED OPERATING RESULTS

Selected Consolidated Financial Information (in $ millions, except per share amounts)

	For the three months ended December 31			For the twelve months ended December 31		
	2008	2007	% Change	2008	2007	% Change
Premiums and deposits:						
Life insurance, guaranteed annuities and insured health products	$ 4,782	$ 5,764	-17%	$ 30,007	$ 18,753	60%
Self-funded premium equivalents (ASO contracts)	615	570	8%	2,410	2,233	8%
Segregated funds deposits:						
Individual products	2,054	1,935	6%	7,825	9,183	-15%
Group products	1,399	1,460	-4%	5,524	5,788	-5%
Proprietary mutual funds and institutional deposits (1)	6,484	6,177	5%	30,693	11,183	–
Total premiums and deposits	15,334	15,906	-4%	76,459	47,140	62%
Fee and other income	743	861	-14%	3,124	2,703	16%
Paid or credited to policyholders	4,815	6,840	-30%	26,774	19,122	40%
Net income – common shareholders (4)						
Continuing operations – adjusted (3)	525	494	6%	2,018	1,950	3%
Discontinued operations – adjusted (2)	–	43	–	43	203	-79%
Net income – adjusted (3)	525	537	-2%	2,061	2,153	-4%
Adjustments after-tax (3)	(1,432)	–	–	(665)	(97)	–
Net income	(907)	537	–	1,396	2,056	-32%
Per common share						
Basic earnings – adjusted (3)	$ 0.586	$ 0.601	-2%	$ 2.303	$ 2.413	-5%
Adjustments after-tax (3)	(1.597)	–	–	(0.743)	(0.109)	–
Basic earnings	(1.011)	0.601	–	1.560	2.304	-32%
Dividends paid	0.3075	0.275	12%	1.200	1.060	13%
Book value				12.61	10.98	15%
Return on common shareholders' equity						
Net income – adjusted (3)				19.0%	21.6%	
Net income				12.7%	20.7%	
At December 31						
Total assets				$ 130,074	$ 118,194	10%
Segregated funds net assets				77,748	89,181	-13%
Proprietary mutual funds and institutional net assets (5)				131,122	179,162	-27%
Total assets under administration				$ 338,944	$ 386,537	-12%
Share capital and surplus				$ 13,228	$ 10,908	21%

(1) Includes Putnam Investments, LLC mutual funds and institutional deposits, excluding Prime Money Market Fund net deposits.
(2) Represents the operating results of GWL&A's health care business, which was sold effective April 1, 2008. Does not include the gain on sale of the health care business.
(3) Net income, basic earnings per common share and return on common shareholders' equity are presented on an adjusted basis, as a non-GAAP financial measure of earnings performance, and reflect the following items in 2008:

	Net income		Per common share – In quarter	Per common share – Year-to-date	Refer to Annual Financial Statement Notes:
Q1: Gain on termination of reinsurance agreement	$ 176		$ –	$ 0.197	Note 14
Reserve strengthening in GWL&A	(58)	$ 118	–	(0.065)	Note 2
Q2: Gain on sale of GWL&A's health care business	649	649	–	0.725	Note 2
Q4: Intangible & goodwill impairment	(1,353)		(1.508)	(1.511)	Note 7
Valuation allowance, income tax	(34)		(0.038)	(0.038)	Note 22
Restructuring costs	(45)	(1,432)	(0.051)	(0.051)	Note 3
		$ (665)	$ (1.597)	$ (0.743)	

During 2007, net income attributable to common shareholders was reduced by $97 million after-tax ($0.109 per common share) as a result of a provision for certain Canadian retirement plans.
(4) Net income for year ended December 31, 2008 includes asset impairment charges of $100 million after-tax and costs of $19 million associated with the transfer of Putnam's Prime Money Market Fund to Federated Investors, Inc.
(5) Excludes Putnam Prime Money Market Fund.

Reinsurance Transaction

Standard Life Transaction

On February 14, 2008, the Company's indirect wholly-owned Irish reinsurance subsidiary, Canada Life International Re Limited (CLIRe), signed an agreement with Standard Life Assurance Limited (Standard Life), a U.K. based provider of life, pension and investment products, to assume by way of indemnity reinsurance, a large block of U.K. payout annuities (the Standard Life transaction). The reinsurance transaction increased premium income, paid or credited to policyholders, funds held by ceding issuers and policyholders liabilities by approximately $12.5 billion.

Financial Markets

Financial Market Volatility

Global credit, equity and foreign exchange markets continue to experience significant volatility as a result of credit and liquidity concerns relating ultimately to the deterioration in the United States mortgage and housing markets. These concerns have led to the disruption in the normal functioning of credit markets around the world, unprecedented volatility and have resulted in many financial institutions experiencing financial difficulty. Governments across the globe have introduced measures intended to instill confidence in financial markets for financial institutions and their clients.

The Company has observed that liquidity in the fixed income market has marginally improved in recent weeks. Liquidity has not returned to "normal" levels, however new issues of financial instruments have successfully come to the market with some oversubscribed and a modest level of trading is taking place.

The S&P TSX index declined 24% in the fourth quarter which has resulted in a decline of 35% since the beginning of the year. Also, in the quarter the S&P 500 index declined 23% and the FTSE 100 index declined 10% which has resulted in declines of 38% and 31% respectively since the beginning of the year.

Consequently, the average S&P TSX index level for the fourth quarter of 2008 was 34% lower than the same period in 2007. Similarly the average index levels for the S&P 500 and the FTSE 100 were down 39% and 34% respectively from 2007 levels. The declines in average index levels were more moderate when comparing the year-to-date periods for 2008 and 2007. The average index level for the S&P TSX for the year was down 8% compared to 2007 and the S&P 500 and the FTSE 100 were 17% and 16% respectively.

Period ended	Year ended 2008	Dec. 31 2008	Sept. 30 2008	June 30 2008	Mar. 31 2008	Year ended 2007	Dec. 31 2007	Sept. 30 2007	June 30 2007	Mar. 31 2007
S&P TSX Index										
Close	**8,988**	**8,988**	**11,753**	**14,467**	**13,350**	13,833	13,833	14,099	13,907	13,166
Average	**12,486**	**9,108**	**13,150**	**14,400**	**13,269**	13,620	13,885	13,816	13,806	12,986
S&P 500 Index										
Close	**903**	**903**	**1,166**	**1,280**	**1,323**	1,468	1,468	1,527	1,503	1,421
Average	**1,220**	**912**	**1,252**	**1,372**	**1,351**	1,477	1,496	1,489	1,497	1,424
FTSE Index										
Close	**4,434**	**4,434**	**4,902**	**5,626**	**5,702**	6,457	6,457	6,467	6,608	6,308
Average	**5,363**	**4,260**	**5,354**	**5,983**	**5,881**	6,403	6,455	6,362	6,537	6,266

Lifeco Developments

Impact on Operating Results

Impairment testing of goodwill and intangible assets

During the fourth quarter, the Company conducted its annual test for goodwill and intangible assets impairment. The test resulted in the Company recording a non-cash, after-tax impairment charge of $1,353 million (US$1,118 million) in connection with goodwill and intangible assets in the Company's United States operating segment.

The impairment charge reduces the carrying value of goodwill and intangible assets acquired in connection with the acquisition of Putnam in August 2007. The impairment charge reflects management's assessment of the impact of the decline of Putnam's assets under management (AUM) as a result of the deterioration of investment market conditions since the acquisition date. The decrease in AUM, together with the current investment market and economic conditions and the expected timing of their future recovery have lowered the Company's previous estimates of Putnam's future revenues and cash flows.

The impairment charge resulted in the following, in the United States operating segment:

Summaries of Consolidated Operations: a non-cash, pre-tax charge of US$901 million (US$560 million after-tax) related to intangible assets and a non-cash, pre-tax charge of US$899 million (US$558 million after-tax) related to goodwill. The after-tax results are net of Putnam's non-controlling interests portion of the charges of US$6 million.

Consolidated Balance Sheets: a decrease in intangible assets of US$901 million (US$92 million related to brand and US$809 million related to customer contracts), a decrease in goodwill of US$899 million and an increase of US$676 million in Other Assets related to future tax assets. Accumulated surplus is reduced by the after-tax charges relating to goodwill and intangible assets.

A further discussion of impairment testing of goodwill and intangible assets can found in the Critical Accounting Estimates section of this MD&A and Putnam's operations are further discussed in the United States section.

Other impairment charges

On September 18, 2008, Lifeco issued a news release confirming that it held fixed income securities issued by Lehman Brothers Holdings Inc. (Lehman) with a par value of $101 million, and had investment exposure to various companies in the American International Group (AIG) with a par value of $347 million, including $149 million of fixed income securities issued by the holding company, American International Group Inc. On September 26, 2008, Lifeco issued a news release confirming that it had investment exposure to Washington Mutual Inc. with a par value of $2 million.

For the twelve months ended December 31, 2008, the Company recorded a charge for the impairment of assets of $100.0 million after-tax. This charge is considered to be "other-than-temporary", and has reduced net income attributable to common shareholders reported by the Company. Fourth quarter charges of $4.5 million, reflect additional market value fluctuations on investment exposures highlighted as impaired in the third quarter report, as well as other provision charges.

Charges for asset impairment

	December 31 2008			September 30 2008
	Total par value	Market value [1]	Shareholder after-tax charge	Shareholder after-tax charge
Lehman Brothers Holdings Inc.	$ 107.8	$ 10	$ 47.0	$ 44.7
Washington Mutual Inc. (sold @ $40)	2.1	40	0.9	0.9
Bradford & Bingley PLC	31.7	22	18.3	19.3
American International Group – Holdco Bonds [2]	39.4	24	22.6	24.9
Other provisions	–		11.2	5.7
Total	$ 181.0		$ 100.0	$ 95.5

(1) Per $100 par value.
(2) AIG 5.75% subordinated debentures due 2067.

	Total par value	Market value	Shareholder after-tax charge	Shareholder after-tax charge
By segment				
Canada	$ 30.0		$ 14.5	$ 11.5
Europe	87.5		53.7	54.3
U.S.	63.5		31.8	29.7
Total	$ 181.0		$ 100.0	$ 95.5

Other developments

Life insurers offering segregated fund or variable annuity investment performance guarantees have been adversely impacted by low interest rates and equity market declines. The high level of equity market volatility has increased the cost of dynamic hedging programs and in turn restricted the availability of reinsurance. In response, we expect life insurers to revise product designs to reduce benefit costs and to increase prices.

The Company will monitor developments in this area and will consider introducing lifetime income guarantee products in 2009 to reinforce our market leading position in Canada and to extend our U.S. and European product and distribution range.

Great-West Life, London Life and Canada Life temporarily suspended withdrawals and transfers-out from their Real Estate Segregated Funds (the Funds), effective the close of business December 15, 2008. The economic situation in 2008 significantly increased investors' preference for liquidity, which impacted equity markets, including real estate. One of the impacts was an increase in withdrawals and transfers-out from the Funds. In accordance with the terms of the Information Folder governing the Funds, management determined the need to temporarily suspend withdrawals and transfers-out from the Funds in order to preserve unitholder value, to balance the interests of all unitholders and to treat everyone fairly. The companies are working to rebuild liquidity to support the long-term viability of the funds, and to enable the suspension to be lifted.

On October 1, 2008, Putnam issued a news release announcing that it will participate in the Money Market Guaranty Program recently introduced by the U.S. Treasury. Participation in this program will provide shareholders of Putnam's retail money market funds with protection, in the event of a fund's liquidation, against the net asset value of the funds falling below $0.995 per share.

On September 24, 2008, Putnam issued a news release announcing that it had entered into a transaction with Federated Investors, Inc. that would result in the liquidation of Putnam's US$12.3 billion institutional Prime Money Market Fund. Under this transaction, shareholders of the Putnam Prime Money Market Fund would receive shares of the Federated Prime Obligations Fund on a $1-per-share for $1-per-share basis (the Putnam Prime Money Market transaction).

GREAT-WEST LIFECO INC.

Unrealized mark-to-market losses

In addition to "other-than-temporary" impairment charges, the deterioration in financial markets, as well as extreme illiquidity of the bond markets coupled with indeterminable liquidity premiums, has produced a general widening of credit spreads and lower market prices for fixed income investments. This has resulted in a decline in the fair value of Lifeco's bond investments. At December 31, 2008, gross unrealized bond losses totaled $6.1 billion. Of the $6.1 billion, $5.7 billion is related to bonds that have been classified as held for trading and $0.4 billion is related to bonds that have been classified as available for sale. The held for trading bonds are held primarily in support of actuarial liabilities with changes in the fair value of these assets, excluding changes on other-than-temporarily impaired assets, offset by a corresponding change in the value of the actuarial liabilities. The Company has the ability and intent to hold the securities with unrealized losses until a recovery of the fair value, which may be maturity; therefore, the Company does not consider these investments to be other than temporarily impaired at December 31, 2008.

Gross unrealized bond losses [(1)]

C$ billions	December 31, 2008		September 30, 2008	
Classification				
Held for trading	$ (5.7)	93%	$ (4.7)	96%
Available for sale	(0.4)	7	(0.2)	4
Total other general fund assets	**$ (6.1)**	**100%**	$ (4.9)	100%

(1) Includes unrealized bond losses on funds held by ceding insurers.

Other charges

In connection with the Putnam Prime Money Market transaction, Putnam incurred charges totaling $19 million after-tax in the third quarter of 2008.

Impact on Liquidity and Financial Condition

The Company's liquidity requirements are self-funded, with short term obligations being met by generating internal funds and maintaining adequate levels of liquid investments. At December 31, 2008, Lifeco held cash and liquid short term investments of $5.6 billion, including $1.2 billion held directly at the holding company level as a result of the fourth quarter issuance of preferred and common shares. In addition, Lifeco and its operating subsidiaries held Canada, United States and foreign government bonds of $19.4 billion. Lifeco also maintains a $200 million committed line of credit with a Canadian chartered bank.

Lifeco's financial condition and regulatory capital position remained strong at December 31, 2008. In this regard, Canadian operating companies consolidated Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio was 210%, which is above the Company's target operating range. The MCCSR ratio includes no impact from the fourth quarter issuance of preferred and common shares as the proceeds were retained in liquid assets at the holding company level. During the fourth quarter, the unfavourable impact of equity markets on capital requirements associated with certain segregated fund contracts with investment performance guarantees was offset by the favourable impact of growth in retained earnings combined with the favourable impact of changes in assumptions and methods.

The estimated RBC ratio of GWL&A, the U.S. operating company, at December 31, 2008, reported annually to U.S. insurance regulators, was 406%, which is well in excess of minimum requirements.

While the Company's financial condition remained strong at December 31, 2008, further deterioration in financial markets would be expected to have a negative impact.

Measurement Uncertainty

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. The results of the Company reflect management's judgments regarding the impact of prevailing global credit, equity and foreign exchange market conditions. Financial instrument carrying values currently reflect the illiquidity of the markets and the liquidity premiums embedded in the market pricing methods the Company relies upon.

The estimation of actuarial liabilities relies upon investment credit ratings. The Company's practice is to use third party independent credit ratings where available. Credit rating changes may lag developments in the current environment. Subsequent credit rating adjustments will impact actuarial liabilities.

In addition to the Company's direct investments in certain financial institutions, the Company has contractual business relationships with these financial institutions. Given the current uncertainty associated with these entities, normal business conditions do not prevail and the Company's contractual business relationships may be impacted.

Given the uncertainty surrounding the continued volatility in these markets, and the general lack of liquidity in financial markets, the actual financial results could differ from the estimates made in preparation of the financial statements.

Consolidated Operating Results

Net Income

Consolidated net income of Lifeco includes the net income of Great-West Life and its operating subsidiaries London Life and Canada Life, GWL&A and Putnam, together with Lifeco's corporate results.

Lifeco's net income attributable to common shareholders for the year ended December 31, 2008 was $1,396 million compared to $2,056 million reported a year ago, a decrease of 32%. On a per share basis, this represents $1.560 per common share ($1.553 diluted) for the twelve months of 2008 compared to $2.304 per common share ($2.287 diluted) a year ago.

The 2008 results include the following:

The impact of certain items, described below, that totaled $(1,432) million after-tax ($(1.597) per common share) for the three months ended December 31, 2008, and $(665) million after-tax ($(0.743) per common share) for the twelve months ended December 31, 2008.

In the fourth quarter, the Company recorded a non-cash impairment charge in connection with Putnam goodwill and intangibles of $(1,353) million after-tax. In addition, the Company recorded a valuation allowance against a Putnam deferred tax asset of $(34) million after-tax, and a Putnam restructuring charge of $(45) million after-tax. These items are described in notes 3, 7 and 22 to the annual financial statements.

In addition to these fourth quarter charges, the Company recorded the following items in 2008. In the second quarter, the Company realized a gain of $649 million after-tax in connection with the sale of its Great-West Healthcare business. In the first quarter, the Company realized a gain of $176 million after-tax in connection with the termination of a long-standing assumption reinsurance agreement under which GWL&A had reinsured a block of U.S. participating policies, and the Company increased policy reserves by $58 million after-tax to provide for an increase in overhead costs expected to be absorbed as a result of the sale of Great-West Healthcare. The first and second quarter items are described in notes 2 and 14 to the annual financial statements.

Excluding the adjustments for the full year of 2008, net income adjusted attributable to common shareholders is $2,061 million or $2.303 per common share.

The 2007 results include a $97 million after-tax provision for certain Canadian retirement plans, which impacted earnings per common share by $0.109.

Net income – common shareholders

	For the three months ended December 31			For the twelve months ended December 31		
	2008	2007	% Change	2008	2007	% Change
Canada	$ 228	$ 246	-7%	$ 1,003	$ 973	3%
United States	82	98	-16%	309	366	-16%
Europe	224	150	49%	726	611	19%
Lifeco Corporate	(9)	–	–	(20)	–	–
Continuing operations – adjusted	525	494	6%	2,018	1,950	3%
Discontinued operations – adjusted	–	43	–	43	203	-79%
Total adjusted	525	537	-2%	2,061	2,153	-4%
Adjustments	(1,432)	–	–	(665)	(97)	–
Total Lifeco	$ (907)	$ 537	–	$ 1,396	$ 2,056	-32%

Adjusted net income attributable to common shareholders:

Canada – For the fourth quarter, net income decreased $18 million to $228 million in 2008. Individual Insurance & Investment Products (IIIP) decreased $49 million, Group Insurance decreased $7 million, and Canada Corporate increased $38 million.

For the full year 2008, net income increased $30 million compared to 2007 to $1,003 million. IIIP increased $36 million, Group Insurance increased $7 million, and Canada Corporate decreased $13 million.

United States – For the fourth quarter, net income from continuing operations decreased $16 million to $82 million in 2008. Financial Services increased $41 million, Asset Management decreased $44 million, and United States Corporate decreased $13 million.

For the full year 2008, net income from continuing operations decreased $57 million compared to 2007 to $309 million. Financial Services increased $19 million, Asset Management decreased $65 million, and United States Corporate decreased $11 million.

Europe – For the fourth quarter, net income increased $74 million to $224 million in 2008. Insurance & Annuities increased $48 million, Reinsurance increased $28 million, and Europe Corporate was down $2 million.

For the full year 2008, net income increased $115 million compared to 2007 to $726 million. Insurance & Annuities increased $75 million, Reinsurance increased $64 million, and Europe Corporate decreased $24 million.

Lifeco Corporate – For the fourth quarter, Lifeco Corporate net income was a charge of $9 million compared to nil in 2007. The charge is due to unfavourable currency movement on certain foreign currency denominated liabilities.

For the full year 2008, Lifeco Corporate net income was a charge of $20 million compared to nil in 2007, for the same reason as the in quarter period.

Discontinued Operations – On April 1, 2008, Lifeco announced that its subsidiary GWL&A, completed the sale of its U.S. health care business. Accordingly, the operating results for this business for 2008 and 2007 are shown separately as discontinued operations.

Refer to each segment section for further detail.

Premiums and Deposits

Premiums and deposits includes premiums on risk-based insurance and annuity products as well as premium equivalents on self-funded group insurance administrative services only contracts, and deposits on individual and group segregated fund products and proprietary mutual funds and institutional accounts.

In the third quarter of 2008, Putnam liquidated its Prime Money Market Fund. Premiums and deposits exclude Prime Money Market Funds net deposits to facilitate comparison to prior periods: fourth quarter 2008 US$0 million, fourth quarter 2007 US$3,422 million; and full year 2008 US$(7,508) million, full year 2007 US$4,781 million.

For the fourth quarter, total premiums and deposits were $15,334 million, a decrease of $572 million over the fourth quarter of 2007. Canada was down $1,623 million, United States increased $1,133 million and Europe was down $82 million.

In Canada, premiums decreased $1,253 million on risk-based products due to $1,574 million of premiums recaptured under a bulk reinsurance agreement in 2007. Premium equivalent ASO fees increased $45 million and savings products decreased $415 million due to lower average assets in the last half of 2008. The increase in the United States was mainly due to one large Individual Markets sale and also Asset Management deposits. In Europe, Insurance & Annuities premiums were up $323 million primarily on strong growth in sales of payout annuities and savings products in the U.K. and Isle of Man. Reinsurance premiums were down $405 million due to the commutation of a structured life contract in 2007.

For the year, total premiums and deposits were $76,459 million, an increase of $29,319 million from 2007. Premiums and deposits in Canada decreased $1,244 million. The United States increased $20,390 million due to including deposits from Asset Management (Putnam) for the full year in 2008 compared to five months in 2007. Europe was up $10,173 million due primarily to the assumed business from the Standard Life transaction.

Refer to each segment section for further detail.

Net Investment Income

Net investment income

	For the three months ended December 31			For the twelve months ended December 31		
	2008	2007	% Change	2008	2007	% Change
Investment income earned	$ 1,451	$ 1,268	14%	$ 5,910	$ 5,446	9%
Amortization of net realized and unrealized gains on real estate investments	(5)	15	–	23	71	-68%
(Provision)/recovery of credit losses	(5)	3	–	(4)	10	–
Other net realized gains/(losses)	–	33	–	98	107	-8%
Regular investment income	1,441	1,319	9%	6,027	5,634	7%
Investment expenses	(18)	(15)	–	(65)	(69)	–
Regular net investment income	1,423	1,304	9%	5,962	5,565	7%
Changes in fair value of held for trading assets	(368)	821	–	(5,161)	(1,098)	–
Net investment income	$ 1,055	$ 2,125	-50%	$ 801	$ 4,467	-82%

Net investment income for the three months ended December 31, 2008 decreased by $1,070 million compared to the same period last year. The year-over-year decrease in fair value of held for trading assets of $1,189 million, partly offset by an increase in regular net investment income of $119 million account for the change. Regular net investment income increased due to investment income earned from the Standard Life transaction partly offset by lower amortization of net realized and unrealized gains on real estate investments. The changes in fair value on held for trading assets was due to a decline in bonds and stocks attributable to increased credit spreads and equity market declines and includes a charge for the impairment of assets.

For the twelve months ended December 31, 2008, net investment income decreased by $3,666 million compared to the same period last year. The decrease reflects the year-over-year decrease in fair value of held for trading assets of $4,063 million partly offset by an increase in regular net investment income of $397 million and is due to the same reasons as the in quarter period.

Fee and Other Income

In addition to providing traditional risk-based insurance products, the Company also provides certain products on a fee-for-service basis. The most significant of these products are segregated funds and mutual funds, for which the Company earns investment management fees on assets managed and other fees, and ASO contracts, under which the Company provides group benefit plan administration on a cost-plus basis.

Fee and other income

	For the three months ended December 31			For the twelve months ended December 31		
	2008	2007	% Change	2008	2007	% Change
Segregated funds, mutual funds and other	$ 709	$ 828	-14%	$ 2,988	$ 2,572	16%
ASO contracts	34	33	3%	136	131	4%
Total	$ 743	$ 861	-14%	$ 3,124	$ 2,703	16%

For the quarter, consolidated fee income was $743 million, down $118 million from the fourth quarter of 2007. Canada decreased $36 million due to a drop in average segregated funds assets in the last half of 2008. The United States decreased $79 million, mainly due to a decrease in lower average assets under management. Europe decreased $3 million in connection with reinsurance transactions.

For the year, consolidated fee income was $3,124 million, up $421 million: Canada was up $5 million, United States increased $441 million due to including fee income from Putnam for the full year 2008 compared to five months in 2007, and Europe decreased $25 million, due to decreases in Ireland and Germany.

The Company expects fee income on segregated funds, mutual funds and other to decline in 2009 due to the decline in equity markets and lower average assets.

Paid or Credited to Policyholders

This amount includes increases in policy liabilities, claims, surrenders, annuity and maturity payments, dividend and experience refund payments for risk-based products. It also includes adjustments to actuarial liabilities for changes in fair value of certain invested assets backing those actuarial liabilities. This amount does not include benefit payment amounts for fee-based products (ASO contracts, segregated funds and mutual funds).

For the quarter, consolidated amounts paid or credited to policyholders were $4,815 million, a decrease of $2,025 million from the fourth quarter of 2007. Canada was down $2,163 million due to lower claims and decreases in carrying value of invested assets backing actuarial liabilities. The United States was up $164 million due primarily to the weakening of the Canadian dollar. Europe was down $26 million due to commutations of reinsurance treaties.

For the year, amounts paid or credited to policyholders were $26,774 million, an increase of $7,652 million from 2007. Canada was down $2,649 million due partly to a decrease in the carrying value of invested assets backing liabilities. The United States was down $265 million and Europe was up $10,566 million due mainly to the Standard Life transaction partly offset by the decrease in the carrying value of assets backing actuarial liabilities.

Other Benefits and Expenses

Included in other benefits and expenses are operating expenses, commissions, interest expense on long-term debt and other borrowings, and dividends on preferred shares, as well as premium taxes.

Other benefits and expenses

	For the three months ended December 31			For the twelve months ended December 31		
	2008	2007	% Change	2008	2007	% Change
Total expenses	$ **684**	$ 662	3%	$ **2,687**	$ 2,329	15%
Less: investment expenses	**18**	15	20%	**65**	69	-6%
Operating expenses	**666**	647	3%	**2,622**	2,260	16%
Commissions	**360**	374	-4%	**1,353**	1,366	-1%
Premium taxes	**69**	57	21%	**223**	225	-1%
Financing charges	**37**	84	-56%	**296**	269	10%
Total	$ **1,132**	$ 1,162	-3%	$ **4,494**	$ 4,120	9%

Operating expenses for the three months ended December 31, 2008 increased $19 million compared to the same period in 2007. Canada increased $17 million due to one time adjustments related to pension expense. The United States decreased $12 million mainly due to an initiative to realign corporate services. Europe increased $13 million due to expenses related to the improvement in information technology infrastructure and also due to currency movement. Corporate increased $1 million.

Operating expenses for the twelve months ended December 31, 2008 increased $362 million compared to the same period in 2007. Operating expenses for Putnam increased $487 million over 2007 due to its inclusion in the results of Lifeco for the full year of 2008 compared to five months in 2007. The 2007 results include a $151 million provision for certain Canadian retirement plans.

Financing charges consist of interest on debentures and other borrowings, as well as distributions on preferred shares classified as liabilities. The increase for the full year is a result of financing related to Putnam.

Income Taxes

Income taxes for the three and twelve month periods ended December 31, 2008 were $(744) million and $(278) million, respectively, compared to $198 million and $582 million for the same periods in 2007. Net income before income taxes were $(1,626) million and $375 million for the three and twelve month periods ended December 31, 2008, compared to $740 million and $2,649 million for the same periods in 2007. The change in income tax is largely due to the tax effect of the non-cash impairment charge recorded on indefinite life intangible assets and goodwill.

Consolidated Financial Position

Consolidated total assets under administration

	December 31, 2008			
	Canada	United States	Europe	Total
Assets				
Invested assets	$ **46,240**	$ **26,277**	$ **30,535**	$ **103,052**
Goodwill and intangible assets	**4,973**	**2,102**	**1,722**	**8,797**
Other assets	**1,961**	**3,544**	**12,720**	**18,225**
Total assets	**53,174**	**31,923**	**44,977**	**130,074**
Segregated funds net assets	**38,070**	**17,824**	**21,854**	**77,748**
Proprietary mutual funds and institutional net assets (1)	**2,172**	**128,950**	**–**	**131,122**
Total assets under administration	$ **93,416**	$ **178,697**	$ **66,831**	$ **338,944**

	December 31, 2007			
	Canada	United States	Europe	Total
Assets				
Invested assets	$ 45,148	$ 23,045	$ 31,802	$ 99,995
Assets for operations held for sale	–	697	–	697
Goodwill and intangible assets	4,966	3,519	1,727	10,212
Other assets	2,363	2,439	2,488	7,290
Total assets	52,477	29,700	36,017	118,194
Segregated funds net assets	45,932	17,567	25,682	89,181
Proprietary mutual funds and institutional net assets (1)	2,432	176,730	–	179,162
Total assets under administration	$ 100,841	$ 223,997	$ 61,699	$ 386,537

(1) Excludes Putnam Prime Money Market assets.

ASSETS

Total assets under administration at December 31, 2008 were $338.9 billion, a decrease of approximately $47.6 billion from December 31, 2007. General fund assets increased by $11.8 billion from December 31, 2007 in the United States primarily as a result of currency movement, and in Europe due to an increase in other assets as a result of the Standard Life transaction. Segregated funds, mutual funds and institutional accounts decreased by $59.4 billion from December 31, 2007 mainly due to declining economic conditions.

Invested assets

The Company manages its general fund assets to support the cash flow, liquidity and profitability requirements of the Company's insurance and investment products. The Company follows prudent and conservative investment policies, so that assets are not unduly exposed to concentration, credit or market risks. The Company implements strategies within the overall framework of the Company's policies, reviewing and adjusting them on an ongoing basis in light of liability cash flows and capital market conditions. The majority of investments of the general fund are in medium-term and long-term fixed-income investments, primarily bonds and mortgages, reflecting the characteristics of the Company's liabilities.

Asset distribution

	December 31, 2008			
	Canada	**United States**	**Europe**	**Total**
Bonds				
Government bonds	**$ 9,292**	**$ 5,338**	**$ 7,874**	**$ 22,504**
Corporate bonds	**16,939**	**12,365**	**14,746**	**44,050**
Sub-total bonds	**26,231**	**17,703**	**22,620**	**66,554**
Mortgages	**12,518**	**2,157**	**2,769**	**17,444**
Stocks	**4,126**	**690**	**578**	**5,394**
Real estate	**931**	**167**	**2,090**	**3,188**
Sub-total portfolio investments	**43,806**	**20,717**	**28,057**	**92,580**
Cash and cash equivalents	**142**	**326**	**2,382**	**2,850**
Policy loans	**2,292**	**5,234**	**96**	**7,622**
Total invested assets	**$ 46,240**	**$ 26,277**	**$ 30,535**	**$ 103,052**

	December 31, 2007			
	Canada	United States	Europe	Total
Bonds				
Government bonds	$ 6,848	$ 4,703	$ 8,954	$ 20,505
Corporate bonds	17,925	11,442	15,197	44,564
Sub-total bonds	24,773	16,145	24,151	65,069
Mortgages	11,980	1,639	2,250	15,869
Stocks	5,000	637	906	6,543
Real estate	896	130	1,521	2,547
Sub-total portfolio investments	42,649	18,551	28,828	90,028
Cash and cash equivalents	301	458	2,891	3,650
Policy loans	2,198	4,036	83	6,317
Total invested assets	$ 45,148	$ 23,045	$ 31,802	$ 99,995

Invested assets are recorded at fair value and at December 31, 2008 were $103.1 billion, an increase of $3.1 billion from December 31, 2007. In general, growth in assets from organic business growth and acquisitions have been tempered by lower equity markets and higher credit spreads on stocks and bonds respectively. The distribution of assets has not changed materially and remains heavily weighted to bonds and mortgages.

Bond portfolio quality (excludes $3,395 million short-term investments, $1,690 million in 2007)

Estimated rating	December 31, 2008		December 31, 2007	
AAA	$ 25,138	40%	$ 28,134	44%
AA	10,765	17	10,886	17
A	18,030	28	16,451	26
BBB	8,809	14	7,451	12
BB or lower (1)	417	1	457	1
Total	$ 63,159	100%	$ 63,379	100%

(1) Excludes $181 million of bonds that were downgraded from investment grade to BB after December 31, 2008.

Bond portfolio – The total bond portfolio, including short-term investments, was $66.6 billion or 65% of invested assets at December 31, 2008 and $65.1 billion or 65% at December 31, 2007. Federal, provincial and other government securities represented 34% of the bond portfolio compared to 32% in 2007. The overall quality of the bond portfolio remained high, with 99% of the portfolio rated investment grade and 85% rated A or higher.

Mortgage portfolio

Mortgage loans by type	December 31, 2008 Insured	Non-insured	Total		December 31, 2007 Total	
Single family residential	$ 1,627	$ 223	$ 1,850	11%	$ 1,794	11%
Multi-family residential	3,418	1,718	5,136	29	5,327	34
Commercial	287	10,171	10,458	60	8,748	55
Total mortgages	$ 5,332	$ 12,112	$ 17,444	100%	$ 15,869	100%

Mortgage portfolio – The total mortgage portfolio was $17.4 billion or 17% of invested assets at December 31, 2008 compared to $15.9 billion or 16% of invested assets at December 31, 2007. Total insured loans were $5.3 billion or 31% of the mortgage portfolio.

It is the Company's practice to acquire only high quality commercial loans meeting strict underwriting standards and diversification criteria. The Company has a well-defined risk rating system, which it uses in its underwriting and credit monitoring processes for commercial mortgages. Residential loans are originated by the Company's mortgage specialists in accordance with well-established underwriting standards and are well-diversified across each geographic region.

Equity portfolio

Equity portfolio by type	December 31, 2008		December 31, 2007	
Publicly traded stocks	$ 4,372	51%	$ 5,563	61%
Privately held equity	1,022	12	980	11
Real estate	3,188	37	2,547	28
Total	$ 8,582	100%	$ 9,090	100%

Equity portfolio – The total equity portfolio was $8.6 billion or 8% of invested assets at December 31, 2008 compared to $9.1 billion or 9% of invested assets at December 31, 2007. The equity portfolio consists of public stocks, private equity and real estate. Publicly traded stocks decreased in 2008 due to equity market value declines, and were partly offset by real estate acquisitions.

Asset quality – general fund assets – Non-investment grade bonds were $417 million or 0.6% of the bond portfolio at December 31, 2008 compared with $457 million or 0.7% of the bond portfolio at December 31, 2007. The net decrease in non-investment grade bonds resulted from repayments as well as a small number of changes in ratings.

Impaired investments

	December 31, 2008 Gross amount	Other than temporary impairment	Carrying amount	December 31, 2007 Gross amount	Other than temporary impairment	Carrying amount
Impaired amounts by type						
Held for trading	$ 160	$ (138)	$ 22	$ –	$ –	$ –
Available for sale	18	(17)	1	–	–	–
Loans and receivables	93	(60)	33	42	(53)	(11)
Total	$ 271	$ (215)	$ 56	$ 42	$ (53)	$ (11)

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Impaired investments on a gross basis, including bonds in default, mortgages in the process of foreclosure or in arrears 90 days or more, and real estate acquired by foreclosure, totaled $271 million or 0.29% of portfolio investments at December 31, 2008 compared with $42 million or 0.05% at December 31, 2007. The increase includes investments related to certain issuers in the financial and auto sector, and a large commercial mortgage in the U.K.

The combination of the recognition of other-than-temporary impairment of $215 million ($53 million at December 31, 2007) and the $1,760 million ($1,344 million at December 31, 2007) provision for future credit losses in actuarial liabilities represents 2.3% of bond, mortgage and real estate assets at December 31, 2008 (1.7% at December 31, 2007).

Goodwill and intangible assets

Goodwill and intangible assets have decreased by approximately $1.4 billion from December 31, 2007. Impairment charges recorded in connection with goodwill and intangible assets related to the Putnam acquisition of $2.2 billion were partly offset by currency movement impact of $0.6 billion.

Refer to note 7 to the annual financial statements for further detail. Also refer to the "Critical Accounting Estimates" section of this document for details on impairment testing of these assets.

Other general fund assets

Other general fund assets

	December 31	
	2008	2007
Funds held by ceding insurers	**$ 11,447**	$ 1,512
Other assets	**6,778**	5,778
Total other general fund assets	**$ 18,225**	$ 7,290

Funds held by ceding insurers increased $9.9 billion. The increase in funds held by ceding insurers is mainly due to the Standard Life transaction. Other assets, at $6.8 billion, is made up of several items including premiums in course of collection, future income taxes, interest due and accrued, fixed assets, prepaid amounts, and accounts receivable. The increase in other assets is primarily due to the future income tax asset recorded on the impairment charge of goodwill and intangible assets.

Segregated funds

Segregated funds net assets

	December 31		
	2008	2007	2006
Stocks	**$ 49,992**	$ 61,861	$ 63,229
Bonds	**14,116**	14,798	15,891
Mortgages	**1,952**	1,949	1,915
Real estate	**6,744**	6,821	5,941
Cash and other	**4,944**	3,752	3,170
Total	**$ 77,748**	$ 89,181	$ 90,146
Year over year growth	**-13%**	-1%	20%

Segregated funds assets under management, which are measured at market values, decreased by $11.4 billion to $77.7 billion at December 31, 2008. The change resulted from net deposits of $3.0 billion and realized and unrealized investment reductions of $14.4 billion. Net market value and investment reductions of $14.4 billion were comprised of market losses of $17.7 billion and a currency translation increase of $3.3 billion.

Proprietary mutual funds and institutional net assets

Proprietary mutual funds and institutional net assets
(excludes Putnam Prime Money Market Funds)

	December 31	
	2008	2007
Mutual funds		
Blend equity	**$ 17,275**	$ 28,578
Growth equity	**10,365**	20,960
Equity value	**16,637**	30,303
Fixed income	**22,820**	26,392
Money market	**208**	100
Sub-total	**67,305**	106,333
Institutional accounts		
Equity	**29,376**	39,758
Fixed income	**34,441**	33,071
Sub-total	**63,817**	72,829
Total proprietary mutual funds and institutional accounts	**$131,122**	$179,162

Proprietary mutual funds and institutional accounts under management decreased by $48.0 billion primarily as a result of negative asset flows of $16.8 billion, the deterioration of investment market conditions of $56.3 billion partly offset by the positive effect of the weakening of the Canadian dollar against the US dollar of $25.1 billion. At December 31, 2008, proprietary mutual funds and institutional accounts were comprised of $128.9 billion at Putnam and $2.2 billion at Quadrus.

LIABILITIES

Total liabilities

Total liabilities

	December 31	
	2008	2007
Policy liabilities	**$102,627**	$ 91,872
Deferred net realized gains	**161**	179
Other general fund liabilities	**10,316**	11,388
Total liabilities	**$113,104**	$ 103,439

Total liabilities have increased from $103.4 billion at December 31, 2007 to $113.1 billion at December 31, 2008.

Policy liabilities

Policy liabilities increased 12% from December 31, 2007 to $102.6 billion. Actuarial liabilities are 95% of total policy liabilities.

Actuarial liabilities represent the amounts which, together with estimated future premiums and investment income, will be sufficient to pay estimated future benefits, dividends, and expenses on policies in force. Actuarial liabilities are determined using generally accepted actuarial practices, according to standards established by the Canadian Institute of Actuaries.

Actuarial liabilities increased by approximately $10.4 billion, mainly due to the Standard Life transaction which increased liabilities by $12.5 billion, partly offset by reductions due to changes in the fair value of assets backing actuarial liabilities since January 1, 2008.

Actuarial liabilities in Canada decreased $1.4 billion due mainly to changes in the fair value of assets backing actuarial liabilities since January 1, 2008.

Actuarial liabilities in the United States increased $3.9 billion, due mainly to the weakening of the Canadian dollar.

Actuarial liabilities in Europe increased $7.9 billion mainly due to the Standard Life transaction which increased liabilities by $12.5 billion, partially offset by a reduction due to changes in the fair value of assets backing actuarial liabilities since January 1, 2008.

Assets supporting actuarial liabilities

	Participating	Canada	United States	Europe	Total
December 31, 2008					
Bonds	$ 13,743	$ 11,888	$ 9,672	$ 16,797	$ 52,100
Mortgage loans	5,760	5,282	1,556	2,302	14,900
Stocks	2,512	741	–	152	3,405
Real estate	257	8	–	1,809	2,074
Other	7,444	1,933	2,882	13,157	25,416
Total assets	**$ 29,716**	**$ 19,852**	**$ 14,110**	**$ 34,217**	**$ 97,895**
Total actuarial liabilities	**$ 29,716**	**$ 19,852**	**$ 14,110**	**$ 34,217**	**$ 97,895**
December 31, 2007					
Bonds	$ 12,893	$ 12,527	$ 10,163	$ 19,036	$ 54,619
Mortgage loans	5,340	5,386	1,333	1,984	14,043
Stocks	3,383	879	16	183	4,461
Real estate	225	5	–	1,326	1,556
Other	6,784	1,879	487	3,658	12,808
Total assets	$ 28,625	$ 20,676	$ 11,999	$ 26,187	$ 87,487
Total actuarial liabilities	$ 28,625	$ 20,676	$ 11,999	$ 26,187	$ 87,487

Other assets include: loans to policyholders, cash and certificates of deposit, funds held by ceding insurers, premiums in the course of collection, interest due and accrued, future income taxes, fixed assets, prepaid expenses, accounts receivable and accrued pension assets.

Asset and liability cash flows are carefully matched within reasonable limits to minimize the financial effects of a shift in interest rates. This practice has been in effect for several years and has helped shield the Company's financial position from interest rate volatility.

The increase in other assets in Europe was due to the Standard Life transaction partially offset by the decrease in bond values due to widening credit spreads. The increase in the United States was due to currency movement partially offset by market value declines.

For the participating account, other assets of $7.4 billion consists primarily of policy loans.

Other general fund liabilities

Other general fund liabilities

	December 31	
	2008	2007
Debentures and other debt instruments	$ 3,821	$ 5,241
Funds held under reinsurance contracts	192	164
Repurchase agreements	334	344
Other liabilities	5,969	5,639
Total other general fund liabilities	**$ 10,316**	$ 11,388

Total other general fund liabilities at December 31, 2008 were $10.3 billion, a decrease of $1.1 billion from December 31, 2007. Other liabilities include trade payables, accruals and provisions for post-retirement benefits.

Debentures and other debt instruments decreased by $1.4 billion.

On December 11, 2008, Canada Life redeemed all $200 million aggregate principal amount of its 5.80% Debentures, Series A.

On March 26, 2008, a subsidiary of Putnam executed a US$200 million revolving credit facility with a Canadian chartered bank and drew US$80 million. The proceeds drawn on the revolving credit facility were used to repay in full a demand promissory note that had been issued on January 24, 2008. The amount outstanding under the revolving credit facility was US$120 million at December 31, 2008.

On June 26, 2008 the Company issued $500 million of 7.127% Subordinated Debentures through an affiliated Delaware Limited Partnership, Great-West Lifeco Finance (Delaware) LP II (GWLP II). The subordinated debentures are due June 26, 2068 and bear an annual interest rate of 7.127% until June 26, 2018. After June 26, 2018, the subordinated debentures will bear a floating rate of interest equal to the three month bankers' acceptance rate plus 3.78%. Subject to a Replacement Capital Covenant, the subordinated debentures may be redeemed by GWLP II at the principal amount plus any accrued and unpaid interest after June 26, 2018.

Also, Putnam Acquisition Financing LLC paid down the US$500 million five year term facility to US$304 million on June 26, 2008. The balance has remained constant to December 31, 2008.

Since December 31, 2007, the Company has repaid, in full, the $1,233 million and US$647 million balances on the Canadian and US dollar short term credit facilities with a Canadian chartered bank. During the first quarter of 2008, the Company repaid C$235 million of the Canadian dollar drawings. On April 18, 2008, the Company repaid $730 million of the Canadian dollar drawings and US$345 million of the US dollar drawings. On June 26, 2008, the Company repaid the remaining C$268 million and US$302 million outstanding on the Canadian and US dollar short term credit facilities.

All other liabilities increased $0.3 billion since December 31, 2007. Derivative liabilities increased by $1.0 billion offset by disposal of liabilities related to the sale of the GWL&A health care business.

Preferred Shares and Capital Trust Securities

Preferred shares other than perpetual preferred shares (which include soft-retractable and fixed/floating shares) and Capital Trust Securities and debentures are classified as liabilities.

Preferred shares

At December 31, 2008 the Company had 7,938,500 4.70% Non-Cumulative First Preferred Shares, Series D and 22,282,215 4.80% Non-Cumulative First Preferred Shares, Series E outstanding with stated values of $199 million and $553 million, respectively.

The terms and conditions of the 4.70% Non-Cumulative First Preferred Shares, Series D and 4.80% Non-Cumulative First Preferred Shares, Series E allow the holder to convert to common shares of the Company after a specified period of time. The Company, at its option, may redeem these shares before the holders are entitled to convert them to common shares of the Company. Preferred shares of this type are commonly referred to as soft-retractable and represent a form of financing with a term that is effectively fixed.

Capital trust securities and debentures

Great-West Life Capital Trust (GWLCT), a trust established by Great-West Life in December 2002, had issued $350 million of capital trust securities, the proceeds of which were used by GWLCT to purchase Great-West Life senior debentures in the amount of $350 million, and Canada Life Capital Trust (CLCT), a trust established by Canada Life in February 2002, had issued $450 million of capital trust securities, the proceeds of which were used by CLCT to purchase Canada Life senior debentures in the amount of $450 million. The main features of the trust units are as follows:

Great-West Life Capital Trust Securities (GREATs) – GWLCT issued $350 million of non-voting GREATs. Each holder of the GREATs is entitled to receive a semi-annual non-cumulative fixed cash distribution of $29.975 per GREATs, representing an annual yield of 5.995%, payable out of GWLCT's net distributable funds. Subject to regulatory approval, GWLCT may redeem the GREATs, in whole or in part, at any time.

Canada Life Capital Trust Securities (CLiCS) – CLCT issued $450 million of non-voting CLiCS consisting of $300 million of non-voting CLiCS – Series A and $150 million of non-voting CLiCS – Series B. Each holder of the CLiCS – Series A and CLiCS – Series B is entitled to receive a semi-annual non-cumulative fixed cash distribution of $33.395 and $37.645 per CLiCS, respectively, representing an annual yield of 6.679% and 7.529%, payable out of CLCT's net distributable funds. Subject to regulatory approval, CLCT may redeem the CLiCS, in whole or in part, at any time.

At December 31, 2008, subsidiaries of the Company held $167 million of these securities as temporary investments ($189 million at December 31, 2007).

Non-Controlling Interests

Non-controlling interests include participating account surplus in subsidiaries and preferred shares issued by subsidiaries to third parties. Refer to note 14 to the Company's financial statements.

Non-controlling interests

	December 31	
	2008	2007
Participating account surplus:		
Great-West Life	$ 417	$ 411
London Life	1,549	1,470
Canada Life	31	36
GWL&A	15	186
	$ 2,012	$ 2,103
Preferred shares issued by subsidiaries:		
Great-West Life Series O, 5.55% Non-Cumulative	$ 157	$ 157
Perpetual preferred shares issued by subsidiaries:		
CLFC Series B, 6.25% Non-Cumulative	$ 145	$ 145
Acquisition related fair market value adjustment	5	7
	$ 150	$ 152
Non-controlling interests in capital stock and surplus	$ 13	$ 10

Share Capital and Surplus

In establishing the appropriate mix of capital required to support the operations of the Company and its subsidiaries, management utilizes a variety of debt, equity and other hybrid instruments giving consideration to both the short and long-term capital needs of the Company.

Share capital outstanding at December 31, 2008 was $7,065 million, which was comprised of $1,099 million of perpetual preferred shares, $230 million of five year rate reset preferred shares, and $5,736 million common shares.

At December 31, 2008, the Company had 943,882,505 common shares outstanding with a stated value of $5,736 million compared to 893,761,639 common shares with a stated value of $4,709 million at December 31, 2007.

At December 31, 2008, the Company had four series of perpetual preferred shares outstanding with an aggregate stated value of $1,099 million.

The terms and conditions of the $199 million, 5.90% Non-Cumulative First Preferred Shares, Series F, the $300 million, 5.20% Non-Cumulative First Preferred Shares, Series G, the $300 million, 4.85% Non-Cumulative First Preferred Shares, Series H and the $300 million, 4.50% Non-Cumulative First Preferred Shares, Series I do not allow the holder to convert to common shares of the Company or otherwise cause the Company to redeem the shares. Preferred shares of this type are commonly

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referred to as perpetual and represent a form of financing that does not have a fixed term. The Company, at its option, may redeem the Series F shares on or after September 30, 2008, the Series G shares on or after December 31, 2009, the Series H shares on or after September 30, 2010, and the Series I shares on or after June 30, 2011. The Company regards the Series F shares, the Series G shares, the Series H shares and the Series I shares as comprising part of its core or permanent capital. As such, the Company only intends to redeem the Series F shares, the Series G shares, the Series H shares, or the Series I shares with proceeds raised from new capital instruments issued during the life of the Series F shares, the Series G shares, the Series H shares, or the Series I shares, where the new capital instruments represent equal or greater equity benefit.

In addition, the $230 million of Lifeco Series J First Preferred Shares issued in the fourth quarter of 2008 have a fixed non-cumulative dividend, payable quarterly, of 6.00% per annum during the period March 31, 2009 to but excluding December 31, 2013. On December 31, 2013 and on December 31 every five years thereafter the dividend rate will reset so as to equal the then current five-year Government of Canada bond yield plus 3.07%. Lifeco has the right to redeem the Lifeco Series J First Preferred Shares, in whole or in part, on December 31, 2013 and on December 31 every five years thereafter for $25.00 cash per share plus declared and unpaid dividends. Subject to Lifeco's right of redemption and certain other restrictions on conversion described in Lifeco's articles, each Lifeco Series J First Preferred Share is convertible at the option of the holder on December 31, 2013 and on December 31 every five years thereafter into one Lifeco Series K First Preferred Share, which will carry a floating rate non-cumulative preferential cash dividend, as and when declared by the Board of Directors.

2008 activity

During the twelve months ended December 31, 2008, no common shares were purchased for cancellation pursuant to the Company's Normal Course Issuer Bid. Under the Company's Stock Option Plan, 1,920,866 shares were issued for a total value of $27 million or $13.24 per share.

On December 30, 2008, the Company announced the closing of the offering of 28,920,000 common shares for aggregate proceeds of $600,090,000, and the concurrent closing of its sale to Power Financial Corporation of 19,280,000 common shares by way of private placement for aggregate proceeds of $400,060,000. These two transactions increased common shares by 48,200,000 in total or 5.3%.

On November 27, 2008 the Company issued 9,200,000 6.00% Non-Cumulative first Preferred Shares, Series J (the Series J Preferred Shares) with an aggregate stated value of $230 million.

In November, the Company announced a normal course issuer bid for its common shares commencing December 1, 2008 and ending November 30, 2009. During the course of this bid, the Company may purchase up to but not more than 6,000,000 common shares for cancellation.

During the twelve months ended December 31, 2008, the Company paid dividends of $1.200 per common share for a total of $1,073 million and perpetual preferred share dividends of $57 million.

Unrealized foreign exchange gains on translation of foreign operations increased surplus by $1,196 million since December 31, 2007.

Liquidity and Capital Management and Adequacy

Liquidity

The Company's liquidity requirements are self-funded, with short term obligations being met by generating internal funds and maintaining adequate levels of liquid investments. At December 31, 2008, Lifeco held cash and liquid short term investments of $5.6 billion including $1.2 billion held directly at the holding company level. In addition, Lifeco and its operating subsidiaries held Canada and United States and foreign government bonds of $19.4 billion.

Funds provided by premiums and fees, investment income and maturities of investment assets are reasonably predictable and normally exceed liquidity requirements for payment of claims, benefits, and expenses. However, since the timing of available funds cannot always be matched precisely to commitments, imbalances may arise when demands for funds exceed those on hand. Also, a demand for funds may arise as a result of the Company taking advantage of current investment opportunities. The sources of the funds that may be required in such situations include bank financing and the issuance of debentures and equity securities. The Company evidenced its ability to raise money in the public markets with a preferred share issue of $230 million and a common share issue of $1.0 billion in the fourth quarter of 2008. The Company also maintains a $200 million committed line of credit with a Canadian chartered bank.

Liquid assets and other marketable securities

	December 31 2008	December 31 2007
Liquid assets		
Cash, treasury bills and CDs	**$ 5,632**	$ 4,314
Government bonds	**19,356**	19,784
Total liquid assets	**24,988**	24,098
Other marketable securities		
Corporate bonds	**29,496**	33,889
Common/Preferred shares (public)	**4,373**	5,564
Residential mortgages – insured	**5,045**	4,657
Total	**$ 63,902**	$ 68,208

Cashable liability characteristics

	December 31 2008	December 31 2007
Surrenderable insurance and annuity liabilities		
At market value	**$ 11,291**	$ 11,208
At book value	**29,493**	27,289
Total	**$ 40,784**	$ 38,497

The majority of the liquid assets and other marketable securities are comprised of fixed income securities whose value is inversely related to interest rates. Consequently, a significant rise in prevailing interest rates would result in a decrease in the value of this pool of liquid assets. As well, a high interest rate environment may prompt holders of certain types of policies to terminate their policies, thereby placing demands on the Company's liquidity position.

The carrying value of the Company's liquid assets and other marketable securities is approximately $63.9 billion or 1.6 times the Company's total surrenderable insurance and annuity liabilities. The Company believes that it holds a sufficient amount of liquid assets to meet unanticipated cash flow requirements prior to their maturity.

CASH FLOWS

Cash flows	For the three months ended December 31 2008	For the three months ended December 31 2007	For the twelve months ended December 31 2008	For the twelve months ended December 31 2007
Cash flows relating to the following activities:				
Operations	**$ 1,431**	$ 1,302	**$ 3,863**	$ 3,731
Financing	**733**	(302)	**(1,554)**	2,422
Investment	**(2,778)**	(239)	**(3,292)**	(5,201)
	(614)	761	**(983)**	952
Effects of changes in exchange rates on cash and cash equivalents	**131**	(62)	**157**	(359)
Increase (decrease) in cash and cash equivalents in the period	**(483)**	699	**(826)**	593
Cash and cash equivalents from continuing and discontinued operations, beginning of period	**3,333**	2,977	**3,676**	3,083
Cash and cash equivalents from discontinued operations, end of period	**–**	(26)	**–**	(26)
Cash and cash equivalents from continuing operations, end of period	**$ 2,850**	$ 3,650	**$ 2,850**	$ 3,650

The principal source of funds for the Company is cash provided by operating activities, including premium income, net investment income and fee income. These funds are used primarily to pay policy benefits, policyholder dividends and claims, as well as operating expenses and commissions. Cash flows generated by operations are mainly invested to support future liability cash requirements. Financing activities include the issuance and repayment of capital instruments, and associated dividends and interest payments.

In the quarter, cash and cash equivalents decreased by $483 million from September 30, 2008. Cash flows provided by operations increased by $129 million compared to 2007. In 2008, cash flows were used by the Company to acquire an additional $2,778 million of investments (an increase of $2,539 million compared to 2007), and $290 million of cash was utilized to pay dividends to the preferred and common shareholders. The Company also repaid $200 million of subordinated debt issued by Canada Life. The weakening of the Canadian dollar against the US dollar and the euro increased reported cash and cash equivalents by $131 million. The issue of common shares and preferred shares net of issue costs increased cash flows by $1,212 million.

For the twelve months ended December 31, 2008, cash flows provided by operations increased $132 million to $3,863 million compared to 2007. Cash flows from operations were used to acquire an additional $3,292 million of invested assets, offset by cash received from the sale of the health care business of $1,375 million. The Company utilized $1,130 million of cash flows generated from operations and financing activities to pay preferred and common shareholder dividends and repaid $2,278 million in debt. Currency movement since December 31, 2007 increased reported cash and cash equivalents by $157 million. The issue of common shares and preferred shares net of issue costs increased cash flows by $1,212 million.

COMMITMENTS/CONTRACTUAL OBLIGATIONS

Commitments/Contractual Obligations At December 31, 2008

		Payments due by period					
	Total	1 year	2 years	3 years	4 years	5 years	Over 5 years
1) Long-term debt	$ 3,555	$ 1	$ 1	$ 1	$ 1	$ 1	$ 3,550
2) Operating leases							
– office	585	107	89	71	61	50	207
– equipment	12	6	2	2	2	–	–
3) Purchase obligations	216	73	56	47	27	13	–
4) Credit-related arrangements							
(a) Contractual commitments	337	337	–	–	–	–	–
(b) Letters of credit	SEE NOTE 4(b) BELOW						
5) Pension contributions	81	81	–	–	–	–	–
Total contractual obligations	$ 4,786	$ 605	$ 148	$ 121	$ 91	$ 64	$ 3,757

1) Long-term debt includes long-term financing used in the ongoing operations and capitalization of the Company.

2) Operating leases include office space and certain equipment used in the normal course of business. Lease payments are charged to operations over the period of use.

3) Purchase obligations are commitments to acquire goods and services, essentially related to information services.

4) (a) Contractual commitments are essentially commitments of investment transactions made in the normal course of operations in accordance with policies and guidelines that are to be disbursed upon fulfillment of certain contract conditions.

(b) Letters of credit (LOCs) are written commitments provided by a bank. The total amount of LOCs issued are $2,846 million. Total LOC facilities are $3,375 million.

The Reinsurance operation is from time to time an applicant for letters of credit provided mainly as collateral under certain reinsurance contracts for on-balance sheet policy liabilities. The Company through certain of its subsidiaries has provided LOCs as follows:

To external parties

In order for the non-U.S. licensed operating subsidiaries within LRG to conduct reinsurance business in the U.S., they must provide collateral to the U.S. insurance and reinsurance companies to whom reinsurance is provided in order for these companies to receive statutory credit for reserves ceded to LRG. To satisfy this collateral requirement, LRG, as applicant, has provided LOCs issued by a syndicate of financial institutions under an agreement arranged in 2005 for a five year term expiring November 15, 2010. The aggregate amount of this LOC facility is US$650 million, and the amount issued at December 31, 2008 was US$629 million, including US$239 million issued by LRG subsidiaries to London Life or other LRG subsidiaries, as described below.

To internal parties

GWL&A Financial Inc. as applicant has provided LOCs in respect of the following:

- US$899 million issued to the U.S. branch of Canada Life as beneficiary, to allow it to receive statutory capital credit for reserves ceded to Great-West Life & Annuity Insurance Company of South Carolina. These are provided under a US$1.3 billion agreement with a twenty year term with a third party financial institution. (increased to US$919 million in February, 2009)
- US$70 million issued to Great-West Life & Annuity Insurance Company of South Carolina as beneficiary, to allow it to receive statutory capital credit in respect thereof.

Canada Life as applicant has provided LOCs relating to business activities conducted within the Canada Life group of companies in respect of the following:

- US$525 million issued to its U.S. branch as beneficiary, to allow Canada Life to receive statutory capital credit for life reinsurance liabilities ceded to Canada Life International Re Limited. (decreased to US$515 million in February, 2009)
- £117 million issued to Canada Life Ireland Holdings Limited (CLIHL) as beneficiary, to allow CLIHL to receive statutory capital credit in the United Kingdom for a loan made to The Canada Life Group (UK) Limited.
- US$14 million issued to a U.S. regulator as beneficiary on behalf of its U.S. branch, to receive statutory capital credit for certain reinsurance liabilities ceded to third party non-U.S. licensed reinsurers.

As well, certain LRG subsidiaries as applicants have provided LOCs totaling US$239 million to London Life or other LRG subsidiaries, as beneficiaries to allow them to receive statutory capital credit for reserves ceded to the other subsidiaries.

5) Pension contributions are subject to change, as contribution decisions are affected by many factors including market performance, regulatory requirements and management's ability to change funding policy. Funding estimates beyond 2009 are excluded due to the significant variability in the assumptions required to project the timing of future contributions.

GREAT-WEST LIFECO INC.

CAPITAL MANAGEMENT AND ADEQUACY

At the holding company level, the Company monitors the amount of consolidated capital available, and the amounts deployed in its various operating subsidiaries. The amount of capital deployed in any particular company or country is dependent upon local regulatory requirements as well as the Company's internal assessment of capital requirements in the context of its operational risks and requirements, and strategic plans.

The Company's practice is to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate.

In Canada, the Office of the Superintendent of Financial Institutions (OSFI) has established a capital adequacy measurement for life insurance companies incorporated under the Insurance Companies Act (Canada) and their subsidiaries, known as the Minimum Continuing Capital and Surplus Requirements (MCCSR). Great-West Life's MCCSR ratio at December 31, 2008 was 210% (205% at the end of 2007). The MCCSR ratio includes no impact from the fourth quarter issuance of preferred and common shares as the proceeds were retained in liquid assets at the holding company level. London Life's MCCSR ratio at December 31, 2008 was 253% (234% at the end of 2007). Canada Life's MCCSR ratio at December 31, 2008 was 214% (226% at the end of 2007).

In the United States, GWL&A is subject to comprehensive state and federal regulation and supervision throughout the United States. The National Association of Insurance Commissioners (NAIC) has adopted risk-based capital rules and other financial ratios for U.S. life insurance companies. GWL&A has estimated the risk-based capital (RBC) ratio to be 406% at December 31, 2008 (586% at the end of 2007), well in excess of that required by NAIC.

The MCCSR position of Great-West Life is negatively affected by the existence of a significant amount of goodwill and intangible assets, which, subject to a prescribed inclusion for a portion of intangible assets in Canada for MCCSR, are deducted in the calculation of available regulatory capital.

The capitalization of the Company and its operating subsidiaries will also take into account the views expressed by the various credit rating agencies that provide financial strength and other ratings to the Company.

The Company is both a user and a provider of reinsurance, including both traditional reinsurance, which is undertaken primarily to mitigate against assumed insurance risks, and financial or finite reinsurance, under which the amount of insurance risk passed to the reinsurer or its reinsureds may be more limited.

The Company has also established policies and procedures designed to identify, measure and report all material risks. Management is responsible for establishing capital management procedures for implementing and monitoring the capital plan. The Board of Directors reviews and approves all capital transactions undertaken by management pursuant to the annual capital plan. The capital plan is designed to ensure that the Company maintains adequate capital, taking into account the Company's strategy and business plans.

RATINGS

The Company and its major operating subsidiaries continue to hold strong ratings. On May 16, 2008, Dominion Bond Rating Service confirmed the ratings of the Company and its affiliated operating subsidiaries with stable trends. The rating of Lifeco's senior debt was removed from "Under Review with Developing Implications".

Rating agency	Measurement	Lifeco	Great-West	London Life	Canada Life	GWL&A
A.M. Best Company	Financial Strength		A+	A+	A+	A+
Dominion Bond Rating Service	Claims Paying Ability		IC-1	IC-1	IC-1	NR
	Senior Debt	AA (low)				
	Subordinated Debt				AA (low)	
Fitch Ratings	Insurer Financial Strength		AA+	AA+	AA+	AA+
Moody's Investors Service	Insurance Financial Strength		Aa3	Aa3	Aa3	Aa3
Standard & Poor's Ratings Services	Insurer Financial Strength		AA	AA	AA	AA
	Senior Debt	A+				
	Subordinated Debt				AA-	

Financial Instruments and Other Instruments

Financial and other instruments held by the Company include portfolio investments, various derivative financial instruments, and debentures and other debt instruments.

Portfolio investments consist of bonds, stocks, mortgage loans and real estate. Derivatives include Interest Rate Contracts (futures – long, futures – short, swaps, written options, purchased options), Foreign Exchange Contracts (forward contracts, cross currency swaps) and other derivative contracts (equity contracts, credit default swaps).

Debentures and other debt instruments consist of short and long term financings due between one and fifty-eight years.

Financial instrument carrying values currently reflect the illiquidity of the markets and the liquidity premiums embedded in the market pricing methods the Company relies upon.

Fair values for bonds classified as held for trading or available for sale are determined using quoted market prices. Where prices are not quoted in a normally active market, fair values are determined by valuation models primarily using observable market data inputs. Market values for bonds and mortgages classified as loans and receivables are determined by discounting expected future cash flows using current market rates.

The following table summarizes the extent of our use of quoted market prices, valuation models with observable market data inputs and valuation models with significant non-observable market data inputs for our significant financial assets and liabilities carried at fair value December 31, 2008.

Financial assets and liabilities carried at fair value by valuation methodology

	December 31, 2008				
			Valuation Models-		
	Fair Value	Quoted Prices	observable inputs	non-observable inputs	Total
Financial assets					
Held for trading	$ 54,854	93%	5%	2%	100%
Available for sale [(1)]	6,165	78%	21%	1%	100%
Derivatives	652	–	99%	1%	100%
	$ 61,671				
Financial liabilities					
Preferred shares, Series D & E	752	100%	–	–	100%
Derivatives	1,119	–	100%	–	100%
	$ 1,871				

(1) Excludes private equity classified as available for sale, carried at cost of $891 million.

Fair values for public stocks are generally determined by the last bid price for the security from the exchange where it is principally traded. Fair values for stocks for which there is no active market are determined by discounting expected future cash flows. Where market value can not be measured reliably, fair value is estimated to be equal to cost. Market values for real estate are determined using independent appraisal services and include management adjustments for material changes in property cash flows, capital expenditures or general market conditions in the interim period between appraisals.

Cash flows of assets supporting actuarial liabilities are matched within reasonable limits. Changes in the fair value of these assets are essentially offset by changes in the fair value of actuarial liabilities. Changes in the fair value of assets backing capital and surplus, less related income taxes, would result in a corresponding change in surplus over time, in accordance with investment policies. Refer to the "Risk Management and Control Practices" section of this report for a description of the risks and the management of risks related to financial instruments associated with actuarial liabilities.

During the fourth quarter, the Company changed its pricing source for asset-backed securities backed by prime home improvement loans, held by GWL&A, which are monoline wrapped. The Company concluded that an internal model utilizing asset-backed index spread assumptions versus credit default swap spread assumptions utilized by the previous pricing source would result in a better measurement of fair value for securities. The illiquidity in the credit default swap market is driving up the cost of hedging for market participants and driving down the prices of hedgeable assets. Therefore, this cost does not provide appropriate pricing levels for securitized assets with performing collateral under current market conditions. The Company considers trading activity, bid/ask spreads and the availability of market quotes in its determination of whether the market is considered active. The use of internal valuation models did not affect the Company's operations, liquidity or capital resources during the period. Management will monitor the markets for trading activity in these securities or for other observable market inputs to utilize in its model.

There were no major changes to the Company's and its subsidiaries' policies and procedures with respect to the use of derivative instruments in 2008. During the twelve month period ended December 31, 2008, the outstanding notional amount of derivative contracts decreased by $389 million. The exposure to credit risk, which is limited to the current fair value of those instruments which are in a gain position, decreased to $652 million at December 31, 2008 from $973 million at December 31, 2007. For an overview of the use of derivative financial instruments, refer to the note 23 to the 2008 Consolidated Financial Statements.

RISK MANAGEMENT AND CONTROL PRACTICES

Insurance companies are in the business of assessing, structuring, pricing and assuming, and managing risk. The types of risks are many and varied, and will be influenced by factors both internal and external to the businesses operated by the insurer. These risks, and the control practices used to manage the risks, may be broadly grouped into four categories:

1. Insurance Risks
2. Investment or Market Risks
3. Operational Risks
4. Other Risks

The risk categories above have been ranked in accordance with the extent to which they would be expected to impact the business on an ongoing basis and, accordingly, would require more active management. It must be noted, however, that items included in the third or fourth categories, such as legal, rating, regulatory or reputational risks, may still represent significant risks notwithstanding the expectation that they may be less likely to be realized or may be of a lesser magnitude.

INSURANCE RISKS

GENERAL

By their nature, insurance products involve commitments by the insurer to undertake financial obligations and provide insurance coverage for extended periods of time. In order to provide insurance protection profitably, the insurer must design and price products so that the premiums received, and the investment income earned on those premiums, will be sufficient to pay future claims and expenses associated with the product. This requires the insurer, in pricing products and establishing policy liabilities, to make assumptions regarding expected levels of income and expense. Although pricing on some products is guaranteed throughout the life of the contract, policy liability valuation requires regular updating of assumptions to reflect emerging experience. Ultimate profitability will depend upon how closely actual experience tracks to expected experience.

The Company maintains Corporate Product Design and Pricing Risk Management Policies, Corporate Underwriting and Liability Risk Management Policies, and Corporate Reinsurance Ceded Policies. These three policies are intended to ensure that consistent guidelines and standards for the product design and pricing risk management processes, underwriting and claims management practices, and reinsurance ceded practices associated with insurance business are followed across the Company. These policies outline the requirements of corresponding policies (including approval practices) that each line of business is required to develop, maintain, and follow. Annually the Appointed Actuaries report to the Audit Committees confirming compliance with the policies.

The Company also maintains a Corporate Actuarial Valuation Policy, which sets out the documentation and control standards that are designed to ensure that valuation standards of the Canadian Institute of Actuaries and of the Company are applied uniformly across all lines of business and jurisdictions. Certifying Actuaries confirm their compliance with this policy quarterly.

The following identifies the key overarching insurance risks, and risk management techniques used by the Company.

CLAIMS MORTALITY AND MORBIDITY

Risk – Mortality relates to the occurrence of death and morbidity relates to the incidence and duration of disability insurance claims, the incidence of critical conditions for critical illness insurance, and the utilization of health care benefits. There is a risk that the Company misestimates the level of mortality and morbidity, or accepts customers who will display higher levels of mortality and morbidity than expected.

Management of risk – Research and analysis is done regularly to provide the basis for pricing and valuation assumptions to properly reflect the insurance and reinsurance markets where the Company is active.

Underwriting limits control the amount of risk exposure.

Underwriting practices control the selection of risks insured for consistency with claims expectations.

Underwriting policies have been developed to support the long-term sustainability of the business. The reserves established to fund future claims include a provision for adverse deviation, set in accordance with professional guidelines. This margin is necessary to provide reasonable assurance that actuarial liabilities cover a range of possible outcomes.

In general, the Company sets and adheres to retention limits for mortality and morbidity risks. Aggregate risk is managed through a combination of reinsurance and capital market solutions to transfer the risk.

The Company manages large blocks of business which, in aggregate, is expected to result in relatively low statistical fluctuations in any given period.

For some policies, cost of insurance charges could be increased, if required, to contractual maximums if applicable.

Morbidity risk can be reduced through effective plan design and claims adjudication practices.

CONCENTRATION

Risk – For Group life products, exposure to a multiple death scenario, due to concentration of risk in employment locations for example, could have an impact on financial results.

Management of risk – Risk concentrations are monitored for new business and renewals. Plan design features and medical underwriting limit the amount of insurance on any one life. The Company imposes single event limits on some group plans and declines to quote in localized areas where the aggregate risk is deemed excessive.

Risk – For Group health care products, inflation and utilization will influence the level of claim costs. While inflationary trends are relatively easy to predict, claims utilization is less predictable. The impact of aging, which plays a role in utilization, is well documented. However, the introduction of new services, such as breakthrough drug therapies, has the potential to substantially escalate benefit plan costs.

Management of risk – The Company manages the impact of these and similar factors through plan designs that limit new costs and through pricing that takes demographic and other trend factors into account.

Longevity

Risk – Annuitants could live longer than was estimated by the Company.

Management of risk – Business is priced using prudent mortality assumptions which take into account recent Company and industry experience and the latest research on expected future trends in annuitant mortality.

In general, the Company sets and adheres to retention limits for longevity risk. Aggregate risk is managed through a combination of reinsurance and capital market solutions to transfer the risk.

The Company has processes in place to verify annuitants' eligibility for continued income benefits. These processes are designed to limit annuity payments to those contractually entitled to receive them and helps ensure mortality data used to develop pricing assumptions is as complete as possible.

Policy termination

Risk – Many products are priced and valued to reflect the expected duration of contracts. There is a risk that the contract may be terminated before expenses can be recovered, to the extent that higher costs are incurred in early contract years. Risk also exists where the contract is terminated later than assumed, on certain long-term level premium products where costs increase by age. The risk also includes the potential cost of cash flow mismatch on book value products.

Management of risk – Business is priced using prudent policy termination assumptions which take into account recent Company and industry experience and the latest research on expected future trends. Assumptions are reviewed regularly and are updated for future new issues as necessary.

In general, the Company sets and adheres to retention limits for policy termination risk. Aggregate risk is managed through a combination of reinsurance and capital market solutions to transfer the risk.

The Company also incorporates early surrender charges into contracts and incorporates commission claw backs in its distribution agreements to reduce unrecovered expenses.

Policyholder taxation rules in most jurisdictions encourage the retention of insurance coverage.

Expense management

Risk – Increases in operating expenses could reduce profit margins.

Management of risk – Expense management programs are regularly monitored to control unit costs.

Interest rate pricing and repricing

Risk – Products are priced and valued based on the investment returns available on the assets that support the policy liabilities. If actual investment returns are different than those implicit in the pricing assumptions, actual returns in a given period may be insufficient to cover contractual guarantees and commitments or reserve requirements. Products with long term cash flows and pricing guarantees carry more risk.

Management of risk – There is regular and ongoing communication between pricing, valuation and investment management. Both pricing and valuation manage this risk by requiring higher margins where there is less yield certainty.

The pricing and valuation of death benefit, maturity value and income guarantees associated with variable contracts employ stochastic modeling of future investment returns.

Cash flow matching

Risk – Mismatches between asset and liability cash flows could reduce profit margins in unfavourable interest rate environments.

Management of risk – Margins on non-repriceable products are protected through matching of assets and liabilities within reasonable limits. Margins on repriceable products are protected through frequent monitoring of asset and liability positions. The valuation of both of these product types employ modeling using multiple scenarios of future interest rates, and prudent reserving including provisions for adverse deviations.

Reinsurance acquired

Risk – The reinsurance business in particular has exposure to natural catastrophic events that result in property damage. As retrocessionaire for property catastrophe risk, the Company generally participates at significantly higher event loss exposures than primary carriers and reinsurers. Generally, an event of significant size must occur prior to the Company incurring a claim. If a claim occurs, it is likely to be very large.

Management of risk – The Company limits the total maximum claim amount under all contracts.

The Company monitors cedant companies' claims experience on an ongoing basis and incorporates their experience in pricing models to ensure that the compensation is adequate for the risk undertaken.

Segregated funds guarantees

Risk – A significant decline in market values could increase the cost to the Company associated with segregated fund death benefit and maturity value guarantees.

Management of risk – The Company manages these risks across five product types and utilizes internal reinsurance treaties as risk mitigating tools.

Prudent product design, effective marketing, asset allocation within client portfolios and our broad distribution within Canada, all contribute to a significantly diverse profile of in force segregated funds, issued steadily over many years, which helps to mitigate exposure in Canada to guarantees related to segregated funds.

In the U.S. variable fund guarantees apply only to death benefits, and then only on products sold in certain markets. The valuation of these products employs stochastic modeling of future investment returns.

Investment or Market Risks

The Company acquires and manages asset portfolios to produce risk-adjusted returns in support of policyholder obligations and corporate profitability. The Boards of Directors or the Executive Committees and the Investment Committees of the Boards of Directors of certain principal subsidiaries of Lifeco annually approve Investment and Lending Policies, as well as Investment Procedures and Guidelines. Investments are made in accordance with these investment policies which provide guidance on the mix of assets allowable for each product segment.

A comprehensive report on compliance with these policies and guidelines is presented to the Boards of Directors or Investment Committees annually, and the Internal Audit department conducts an independent review of compliance with investment policies, procedures and guidelines on a periodic basis.

The significant investment or market risks associated with the business are outlined below.

INTEREST RATE RISK

Risk – Interest rate risk exists if asset and liability cash flows are not closely matched and interest rates change causing a difference in value between the assets and liabilities.

Management of risk – The Company utilizes a formal process for managing the matching of assets and liabilities. This involves grouping general fund assets and liabilities into segments. Assets in each segment are selected and managed in relation to the liabilities in the segment.

Interest rate risk is managed by investing in assets that are suitable for the products sold.

- For products with fixed and highly predictable benefit payments, investments are made in fixed income assets that closely match the liability product cash flows. Protection against interest rate change is achieved as any change in the fair market value of the assets will be offset by a similar change in the fair market value of the liabilities.
- For products with uncertain timing of benefit payments, investments are made in fixed income assets with cash flows of shorter duration than the anticipated timing of the benefit payments.
- Interest rate swaps are used to manage interest rate risk for term mismatches related to investments backing product liability cash flows.

The risks associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure and the pace of asset acquisition are quantified and reviewed regularly and appropriate reserves are calculated and held.

EQUITY MARKET RISK

Risk – Given the volatility in equity market values, income in any year may be adversely affected by decreases in market values, notwithstanding the Company's long term expectation of investment returns appropriate for this asset class.

Management of risk – The Company's investment policy guidelines provide for prudent investment in equity markets within clearly defined limits. Exposure to common stocks is managed to provide returns that are consistent with the requirements of the underlying segment.

Risk – Returns from equities backing a portion of the non-adjustable life insurance policy liabilities will be insufficient.

Management of risk – The Investment Policy sets out limits for equity investments. For those used to support non-adjustable policies, the time horizon for such investments is very long term and the policy elements backed by these equities pose little or no liquidity risk. The allowable level of equities has been determined after carefully evaluating tolerance for short-term volatility.

CREDIT RISK

Risk – The risk of loss if debtors, counterparties or intermediaries are unable or unwilling to fulfill their financial obligations.

Management of risk – It is Company policy to acquire only investment-grade assets and minimize undue concentration of assets in any single geographic area, industry and company.

Guidelines specify minimum and maximum limits for each asset class. Credit ratings for bonds are determined by recognized external credit rating agencies and/or internal credit review.

These portfolios are monitored continuously and reviewed regularly with the Boards of Directors or the Investment Committees of the Boards of Directors.

Derivative products are traded with counterparties approved by the Boards of Directors or the Investment Committees of the Boards of Directors. Derivative counterparty credit risk is evaluated quarterly on a current exposure method, using practices that are at least as conservative as those recommended by regulators.

Companies providing reinsurance to the Company are reviewed for financial soundness as part of the ongoing monitoring process.

LIQUIDITY RISK

Risk – The risk of loss if insufficient funds are available to meet anticipated operating and financing commitments and unexpected cash demands.

Management of risk – The Company closely manages operating liquidity through cash flow matching of assets and liabilities and maintaining adequate liquidity sources to cover unexpected payments.

Risk – In the normal course of its Reinsurance business, the Company provides Letters of Credit (LOC) to other parties, or beneficiaries. A beneficiary will typically hold an LOC as collateral in order to secure statutory credit for reserves ceded to or amounts due from the Company. The Company may be required to seek collateral alternatives if it was unable to renew existing LOCs at maturity.

Management of risk – Management monitors its use of LOCs on a regular basis, and assesses the ongoing availability of these and alternative forms of operating credit. The Company has contractual rights to reduce the amount of LOC issued to the LOC beneficiaries for certain reinsurance treaties.

FOREIGN EXCHANGE RISK

Risk – The Company's revenue, expenses and income denominated in currencies other than the Canadian dollar are subject to fluctuations in the movement of the average Canadian dollar relative to the average of those currencies. Such fluctuations affect financial results. The Company has significant exposures to the U.S. dollar resulting from the operations of GWL&A and Putnam in the United States segment and Reinsurance and to the British pound and the euro resulting from our operations in the United Kingdom, Isle of Man, Ireland and Germany in the Europe segment.

Strengthening or weakening of the Canadian dollar spot rate compared to the U.S. dollar, British pound and euro spot rates also has an effect on our financial condition. In accordance with GAAP, foreign currency translation gains and losses from net investments in self sustaining foreign operations, net of related

hedging activities and tax effects, are recorded in accumulated other comprehensive income within shareholders' equity.

Management of risk – Management, from time to time, utilizes forward foreign currency contracts to mitigate the volatility arising from the movement of rates as they impact the translation of operating results denominated in foreign currency.

The Company uses non-GAAP financial measures such as constant currency calculations to assist in communicating the effect of currency translation fluctuation.

Investments are normally denominated in the same currency as the liabilities supported by those investments.

Foreign currency assets acquired to back liabilities are generally converted back to the currency of the liability using foreign exchange contracts.

A 1% appreciation (depreciation) of the average Canadian dollar compared to the average U.S. dollar, British pound and euro together would decrease (increase) net income from continuing operations before adjustments in 2008 by $11 million.

A 1% appreciation (depreciation) of the Canadian dollar compared to the average U.S. dollar, British pound and euro together would decrease (increase) the unrealized foreign currency translation losses in accumulated other comprehensive income of shareholders' equity by $86 million as at December 31, 2008.

DERIVATIVE INSTRUMENTS

Risk – There is a risk of loss if derivatives are used for inappropriate purposes.

Management of risk – Approved policies allow derivatives to only be used to hedge imbalances in asset and liability positions or as substitutes for cash instruments; they are not used for speculative purposes.

The Company's risk management process governing the use of derivative instruments requires that the Company acts only as an end-user of derivative products, not as a market maker.

The use of derivatives may include interest rate, foreign exchange and equity swaps, options, futures and forward contracts, as well as interest rate caps, floors and collars.

OPERATIONAL RISKS

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

Following are the significant operational risks associated with the business.

OPERATIONAL RISK

Risk – There is a risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

Management of risk – The Company manages and mitigates internal operational risks through integrated and complementary policies, procedures, processes and practices. Human Resources hiring, performance evaluation, promotion and compensation practices are designed to attract, retain and develop the skilled personnel required. A comprehensive job evaluation process is in place and training and development programs are supported. Each business area provides training designed for their specific needs and has developed appropriate internal controls. Processes and controls are monitored and refined by the business areas and periodically reviewed by the Company's internal audit staff. Financial reporting processes and controls are further examined by external auditors. The Company applies a robust project management discipline to all significant initiatives.

Appropriate security measures protect premises and information. The Company has emergency procedures in place for short term incidents or outages and is committed to maintaining business continuity and disaster recovery plans in every business location for the recovery of critical functions in the event of a disaster, which include offsite backup data storage and work area facilities.

CHANGES IN MANAGED ASSET VALUES

Risk – The Company's investment fund businesses are fee-based, with revenue and profitability based on the market value of investment fund assets under management. Accordingly, fee income derived in connection with the management of investment funds generally increases or decreases in direct relationship with changes of assets under management which is affected by prevailing market conditions, and the inflow and outflow of new client assets (including purchases and redemptions). Factors that could cause assets under management and revenues to decline include declines in equity markets, changes in fixed-income markets, changes in interest rates and defaults, redemptions and other withdrawals, political and other economic risks, changing investment trends and relative investment performance. The risk is that our fees may vary but our expenses and recovery of initial expenses are relatively fixed, and market conditions may cause a shift in asset mix potentially resulting in a change in revenue and income.

Management of risk – Through its wide range of funds, the Company seeks to limit its risk exposure to any particular market. In its Canadian segregated fund business, the Company encourages its clients to follow a diversified long-term asset allocation approach to reduce the variability of returns and the frequency of fund switching. As a result of this approach, a significant proportion of individual segregated fund assets are in holdings of either a diversified group of funds or "fund of funds" investment profiles, which are designed to improve the likelihood of achieving optimal returns within a given level of risk.

The investment process for assets under management is primarily based upon fundamental research with quantitative research and risk management support. Fundamental research includes valuation analysis, economic, political, industry and company research, company visits, and the utilization of such sources as company public records and activities, management interviews, company-prepared information, and other publicly available information, as well as analyses of suppliers, customers and competitors. Quantitative analysis includes the analysis of past trends and the use of sophisticated financial modeling to gauge how particular securities may perform. Putnam's risk-management capability analyzes securities across all the Putnam Funds and other portfolios to identify areas of over-concentration and other potential risks.

In some cases the Company charges fees that are not related to assets but are based on premiums or other metrics.

Staff recruitment/retention

Risk – The Company is highly dependent on its ability to attract, retain and motivate highly skilled, and often highly specialized, personnel including portfolio managers, research analysts, financial advisors, traders, sales and management personnel and executive officers. The market for these professionals is extremely competitive and is increasingly characterized by the frequent movement of portfolio managers, analysts and salespersons among different firms. The loss of the services of key personnel or failure to attract replacement or additional qualified personnel could negatively affect financial performance. Failure to offer or maintain competitive compensation packages may result in increased levels of turnover among these professionals. Any increase in compensation to attract or retain key personnel could result in a decrease in net income. Departures of key personnel could lead to the loss of clients, which could have an adverse effect on results of operations and financial condition.

Management of risk – The Company uses external consultants to obtain benchmark compensation data and works closely with the Board of Directors to develop competitive compensation packages for key personnel.

The Company also uses incentive based compensation instruments such as share grants of Putnam and Lifeco share options to retain and attract key personnel. Compensation of this type generally links the performance of the Company and an employee's ultimate compensation.

Contract termination

Risk – The retirement and investment services and asset and wealth management businesses derive substantially all of their revenue and net income from investment advisory agreements and service agreements with mutual funds and from other investment products. The contracts are terminable on relatively short notice without cause and management and distribution fees must be approved annually. The termination of, or failure to renew, one or more of these agreements or the reduction of the fee rates applicable to such agreements, could have a material effect on the Company's revenues and profits.

Management of risk – The Company devotes substantial resources to the investment management process and seeks to achieve consistent, dependable and superior performance results over time for all client portfolios. Assets under management are spread across a wide range of investment objectives, which creates diversity in the product lines.

The Company's exposure to the segregated and mutual funds is spread across many individual funds. Considerable resources are devoted to maintaining a strong relationship with the Plan trustees or other applicable fiduciaries of the funds under the relevant agreements. Company representatives meet frequently with the various committees, Plan trustees and other fiduciaries (for Putnam, at least eleven times each year) to fulfill legal reporting requirements, keep them apprised of business developments, renegotiate contracts and/or address any issues they may have.

Access to distribution

Risk – The Company's ability to market its products is significantly dependent on its access to a client base of individual, corporate and public employee pension funds, defined contribution plan administrators, endowment funds, domestic and foreign institutions and governments, insurance companies, securities firms, brokers, banks, and other intermediaries. These intermediaries generally offer their clients products in addition to, and in competition with, the Company's products, and are not obligated to continue working with the Company. In addition, certain investors rely on consultants to advise them on the choice of adviser and consultants may not always consider or recommend the Company. The loss of access to a distribution channel, the failure to maintain effective relationships with intermediaries, or the failure to respond to changes in distribution channels could have a significant impact on the Company's ability to generate sales.

Management of risk – The Company has a broad network of distribution relationships. Products are distributed through numerous broker-dealers, MGA's, financial planners and other financial institutions. In addition, Putnam has several strategic alliances with investment management firms internationally. Putnam relies on its extensive global distribution group to market the Putnam Funds and other investment products across all major retail, institutional and retirement plan distribution channels.

Holding company structure

Risk – As a holding company, the Company's ability to pay interest, dividends and other operating expenses and to meet its obligations generally depends upon receipt of sufficient funds from its principal subsidiaries and its ability to raise additional capital. In the event of the bankruptcy, liquidation or reorganization of any of these subsidiaries, policy liabilities of these subsidiaries will be completely provided for before any assets of such subsidiaries are made available for distribution to the Company; in addition, the other creditors of these subsidiaries will generally be entitled to the payment of their claims before any assets are made available for distribution to the Company except to the extent that the Company is recognized as a creditor of the relevant subsidiaries.

The payment of interest and dividends by the principal subsidiaries is subject to restrictions set forth in relevant insurance, corporate and other laws and regulations which require that solvency and capital standards be maintained by Great-West Life, London Life, CLFC, Canada Life, GWL&A and certain subsidiaries of Putnam.

Management of risk – Management closely monitors the solvency and capital positions of its principal subsidiaries opposite liquidity requirements at the holding company. Additional liquidity is available through established lines of credit and the Company's demonstrated ability to access capital markets for funds. The Company maintains a $200 million committed line of credit with a Canadian chartered bank.

Other Risks

Other risks not specifically identified elsewhere, include:

Ratings

Risk – Financial strength, claims paying ability ratings and ratings related to the issuance of financial instruments represent the opinions of rating agencies regarding the financial ability of Lifeco and its principal subsidiaries to meet its obligations, and are an important factor in establishing the competitive position of life insurance companies and affect financing costs. Rating organizations regularly analyze the financial performance and condition of insurers, including the Company's subsidiaries. Any ratings downgrades, or the potential for such downgrades, of the Company's subsidiaries could increase surrender levels of their insurance and annuity products and adversely affect our ability to market and distribute products and services, and hurt our relationships with creditors, which may have an adverse effect on the Company's business, financial condition and results of operations. These ratings represent an important consideration in maintaining customer confidence in the Company's subsidiaries and in their ability to market insurance and annuity products.

Management of risk – The Company strives to manage to a target credit rating by diligently monitoring the evolution of the rating criteria and processes of the various rating agencies.

Future acquisitions

Risk – From time to time, Lifeco and its subsidiaries evaluate existing companies, businesses, products and services, and such review could result in Lifeco or its subsidiaries disposing of or acquiring businesses or offering new, or discontinuing existing products and services. In the ordinary course of their operations the Company and its subsidiaries consider and discuss with third parties the purchase or sale of companies, businesses or business segments. If effected, such transactions could be material to the Company in size or scope, and could result in changes in the value of the securities of Lifeco, including the common shares of Lifeco.

Management of risk – Lifeco undergoes extensive due diligence upon any consideration of acquiring or disposing of businesses or companies or offering new, or discontinuing existing products and services.

Legal and regulatory risk

Risk – The businesses of certain of Lifeco's principal subsidiaries are subject to various legal and regulatory requirements imposed by common and civil law, legislation and regulation in Canada, the United States, the United Kingdom and other jurisdictions applicable to insurance companies and companies providing investment management and other financial services. These requirements are primarily intended to protect policyholders, beneficiaries and investment advisory clients, not shareholders. Material changes in the legal or regulatory framework or the failure to comply with legal and regulatory requirements, which in turn could lead to financial sanctions or penalties and damage to the Company's reputation, could have a material adverse effect on the Company. As well, regulatory capital requirements influence the amount of capital that is held in a particular jurisdiction and constrains the movement of capital from jurisdiction to jurisdiction.

The Company and its subsidiaries are regularly involved in litigation, both as plaintiff and defendant, which could unfavourably impact the Company's financial position and/or reputation.

Management of risk – The Company monitors compliance with the legal and regulatory requirements in all jurisdictions where it conducts business and assesses trends in legal and regulatory change to keep business areas current and responsive.

The risk of legal actions is managed through the various risk management and control practices described in this "Risk Management and Control Practices" section of this MD&A.

Reputational risk

Risk – In the course of its business activities, the Company may be exposed to the risk that some actions may lead to damage to the Company's reputation and hence damage to its future business prospects.

These actions may include unauthorized activities of employees or other people associated with the Company, inadvertent actions of the Company that become publicized and damage the Company's reputation, regular or past business activities of the Company that become the subject of regulator or media scrutiny and, due to a change of public perception, cause damage to the Company, or any other action or activity that gives rise to damage to the Company's general reputation.

Management of risk – The Company has ongoing controls to limit the unauthorized activities of people associated with the Company. The Company has adopted a Code of Business Conduct and Ethics which sets out the standards of business conduct to be followed by all directors, officers and employees of the Company. Further, the directors, officers and employees are required to sign-off on their compliance with the Code of Business Conduct and Ethics annually. The Company also reacts to address situations that may escalate to a level that might give rise to damage to its reputation.

Reinsurance

Risk – Through its subsidiaries, the Company is both a user and a provider of reinsurance, including both traditional reinsurance, which is undertaken primarily to mitigate against assumed insurance risks, and financial or finite reinsurance, under which the amount of insurance risk passed to the reinsurer or its reinsureds may be more limited.

The Company, through its reinsurance operating entities, has been approached by certain regulatory and enforcement agencies to provide information relating to their investigation of certain third party reinsurance cedants. Neither the Company nor its subsidiaries are the subject of these investigations.

Management of risk – The Company accounts for all reinsurance transactions in accordance with GAAP. In some cases GAAP may differ from the accounting treatment utilized by the Company's reinsurers or its reinsureds based upon the rules applicable to them in their reporting jurisdictions. The Company believes that reinsurance transactions that it has entered into are appropriate and properly accounted for by the Company. Notwithstanding, the Company may, in connection with this type of reinsurance, be exposed to reputation or other risks depending on future events.

SUPPORT SYSTEMS AND CUSTOMER SERVICE FUNCTIONS

Risk – The ability to consistently and reliably obtain securities pricing information, process client transactions and provide reports and other customer services is essential to the Company's operations. A failure of any of these systems could have an adverse effect on the Company's results of operations and financial condition. In addition, any delays or inaccuracies in obtaining pricing information, processing client transactions or providing reports, in addition to any inadequacies in other customer service could lead to loss of client confidence, harm to the Company's reputation, exposure to disciplinary action, and liability to the Company's clients. As part of normal operations, the Company maintains and transmits confidential information about its clients and proprietary information relating to its business operations. The Company could be subject to losses if it fails to properly safeguard sensitive and confidential information.

Management of risk – The Company's operations work with its systems and service providers to obtain reliability and efficiency of information systems. The Company utilizes high quality external systems and maintains controls relating to information security and also works with service providers to verify and assess the sufficiency of their controls.

ENVIRONMENTAL RISK

Risk – Environmental risk is the risk of direct or indirect loss to the Company's financial results or operations or reputation resulting from the impact of environmental issues or costs associated with changes in environmental laws and regulations.

Management of risk – The Company endeavors to respect the environment and to take a balanced and environmentally sustainable approach to conducting business.

Socially responsible investing represents a method of investment that promotes a higher level of environmental sustainability, social responsibility and corporate governance. The Company will not knowingly acquire investments with significant environmental risks. The Company has established environmental policies and guidelines pertaining to the acquisition and ongoing management of real estate properties, loans secured by real property and investments in equity and fixed income securities. These policies are approved by its board of directors and are reviewed annually.

One of the Company's subsidiaries, GWL Realty Advisors Inc. (GWLRA) has an Environmental Management Plan (EMP) to oversee environmental matters on properties owned by the Company (Great-West Life, London Life and Canada Life) and third party clients. The properties for which GWLRA provides property management services are administered under the EMP to ensure compliance with applicable federal, provincial and municipal environmental legislation and by-laws. Under the EMP, the Company has established a program of measuring greenhouse gas emissions for the majority of its office properties across Canada. The monitoring and measurement of environmental performance is carried out by a third party environmental consultant.

The Company's property management and leasing functions are conducted in accordance with environmental laws and prudent industry practices and the Company strives to reduce its environmental footprint through energy conservation and waste reduction that entails recycling programs, periodic waste diversion audits and performance benchmarking.

The Company monitors relevant emerging issues, regulations and requirements and through the GWLRA Environmental Committee makes necessary adjustments to established policies and guidelines.

SUMMARY OF CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in Canada requires management to adopt accounting policies and to make estimates and assumptions that affect amounts reported in the Consolidated Financial Statements. The major accounting policies and related critical accounting estimates underlying Lifeco's financial statements are summarized below. In applying these policies, management makes subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies are common in the insurance and other financial services industries; others are specific to the Company's businesses and operations. The significant accounting estimates are as follows:

Fair value measurement

Financial instrument carrying values necessarily reflect the prevailing market liquidity and the liquidity premiums embedded in the market pricing methods the Company relies upon.

Fair values for bonds classified as held for trading or available for sale are determined using quoted market prices. Where prices are not quoted in a normally active market, fair values are determined by valuation models primarily using observable market data inputs. Market values for bonds and mortgages classified as loans and receivables are determined by discounting expected future cash flows using current market rates.

Fair values for public stocks are generally determined by the last bid price for the security from the exchange where it is principally traded. Fair values for stocks for which there is no active market are determined by discounting expected future cash flows based on expected dividends and where market value can not be measured reliably, fair value is estimated to be equal to cost. Market values for real estate are determined using independent appraisal services and include management adjustments for material changes in property cash flows, capital expenditures or general market conditions in the interim period between appraisals.

During the fourth quarter, the Company changed its pricing methodology for monoline wrapped, asset-backed securities backed by prime home improvement loans which are held by its U.S. subsidiary GWL&A. The Company concluded that an internal model utilizing asset-backed index spreads versus an external pricing source utilizing credit default swap spread assumptions, would result in a better measurement of fair value for securities. Utilizing internal models for these securities, which have a fair market value of $454 million, resulted in a decrease to unrealized losses in the amount of $157 million when compared to the external pricing source. The use of internal valuation models did not affect the Company's operations, liquidity or capital resources during the period.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. The results of the Company reflect management's judgments regarding the impact of prevailing global credit, equity and foreign exchange market conditions.

Impairment

Investments are reviewed regularly on an individual basis to determine impairment status. The Company considers various factors in the impairment evaluation process, including, but not limited to, the financial condition of the issuer, specific adverse conditions affecting an industry or region, decline in fair value not related to interest rates, bankruptcy or defaults and delinquency in payments of interest or principal. Investments are deemed to have an other than temporary impairment when there is no longer reasonable assurance of timely collection of the full amount of the principal and interest due or the Company does not have the intent to hold the investment until the value has recovered. The market value of an investment is not by itself a definitive indicator of impairment, as it may be significantly influenced by other factors including the remaining term to maturity and liquidity of the asset. However, market price must be taken into consideration when evaluating other than temporary impairment.

For impaired mortgages and bonds classified as loans and receivables, provisions are established or write-offs are made to adjust the carrying value to the net realizable amount. Wherever possible, the fair value of collateral underlying the loans or observable market price is used to establish net realizable value. For impaired available for sale loans, recorded at fair value, the accumulated loss recorded in accumulated other comprehensive income is reclassified to net investment income. Once an impairment loss on an available for sale asset is recorded to income, it is not reversed. All gains and losses on bonds classified or designated as held for trading are already recorded in income. As well, when determined to be impaired, interest is no longer accrued and previous interest accruals are reversed.

Current market conditions have resulted in an increase in the inherent risks of future impairment of invested assets. The Company monitors economic conditions closely in its assessment of "other-than-temporary" impairment of individual loans.

Goodwill and intangibles impairment testing

Under GAAP, goodwill is not amortized, but is instead assessed for impairment at the reporting unit level by applying a two-step fair value-based test annually, or more frequently, if an event or change in circumstances indicates that the asset might be impaired. In the first test, goodwill is assessed for impairment by determining whether the fair value of the reporting unit to which the goodwill is associated is less than its carrying value. When the fair value of the reporting unit is less than its carrying value, the second test compares the fair value of the goodwill in that reporting unit (determined as a residual value after determining the fair value of the assets and liabilities of the reporting unit) to its carrying value. If the fair value of goodwill is less than its carrying value, goodwill is considered to be impaired and a charge for impairment is recognized immediately.

For purposes of impairment testing, the fair values of the reporting units are derived from internally developed valuation models using a market or income approach consistent with models used when the business was acquired. Under a market approach, the models consider various factors, including normalized earnings, projected forward earnings, and market multiples such as price earnings ratios, enterprise value to assets under management and price to book multiples. Under the income approach, we estimate the discounted future cash flows for a discrete period, usually three to five years, and a terminal value for each of the reporting units. The future cash flows are based on our best estimates of many inputs, most notably future revenues, cash expenses and taxes, as well as working capital changes over time and capital expenditures. Consideration is also given to economic conditions, and general outlook for the industry and markets in which the reporting unit operates. The discount rates used are based on an industry weighted cost of capital and considers the risk free rate, market equity risk premium, size premium and operational risk premium for possible variations from projections. The terminal value is the value attributed to the reporting unit's operations beyond the discrete projected period using a perpetuity growth rate based on industry, revenue and operating income trends and growth prospects. Where possible, fair values generated internally are compared to market information.

Acquired intangible assets are separately recognized if the benefits of the intangible assets are obtained through contractual or other legal rights, or if the intangible assets can be sold, transferred, licensed, rented, or exchanged.

Intangible assets can have a finite life or an indefinite life. Determining the useful lives of intangible assets requires judgment and fact-based analysis.

Intangible assets with an indefinite life are not amortized and are assessed for impairment annually or more frequently if an event or change in circumstances indicates that the asset might be impaired. Similar to goodwill impairment testing, the fair value of the indefinite life intangible asset is compared to its carrying value to determine impairment, if any.

Intangible assets with a finite life are amortized over their estimated useful lives. These assets are tested for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. In performing the review for recoverability, the future cash flows expected to result from the use of the asset and its eventual disposition are estimated. If the sum of the expected future undiscounted cash flows is less than the carrying value of the asset, an impairment loss is recognized to the extent that fair value is less than the carrying value. Amortization estimates and methods are also reviewed. Indicators of impairment include such things as a significant adverse change in legal factors or in the general business climate, a decline in operating performance indicators, a significant change in competition, or an expectation that significant assets will be sold or otherwise disposed of.

The fair value of intangible assets for customer contracts, the Shareholder portion of acquired future Participating account profits and certain property leases are estimated using an income approach as described for goodwill above. The fair value of brands and trademarks are estimated using a relief-from-royalty approach using the present value of expected after-tax royalty cash flows through licencing agreements. The key assumptions under this valuation approach are royalty rates, expected future revenues and discount rates. The fair value of intangible assets for distribution channels and technology are estimated using the replacement cost approach. Management estimates the time and cost of personnel required to duplicate the asset acquired.

Actuarial liabilities

Actuarial liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commission and policy administrative expenses for all insurance and annuity policies in force with the Company. The Appointed Actuaries of the Company's subsidiary companies are responsible for determining

the amount of the actuarial liabilities to make appropriate provision for the Company's obligations to policyholders. The Appointed Actuaries determine the actuarial liabilities using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The valuation uses the Canadian Asset Liability Method (CALM). This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment.

In the computation of actuarial liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses and rates of policy termination. The valuation assumptions use best estimates of future experience together with a margin for misestimation and experience deterioration. These margins have been set in accordance with guidelines established by the Canadian Institute of Actuaries and are necessary to provide reasonable assurance that actuarial liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

The methods for arriving at these valuation assumptions are outlined below:

Mortality – A life insurance mortality study is carried out annually for each major block of insurance business. The results of each study are used to update the Company's experience valuation mortality tables for that business. When there is insufficient data, use is made of the latest industry experience to derive an appropriate valuation mortality assumption. Although mortality improvements have been observed for many years, for life insurance valuation the mortality provisions (including margin) do not allow for future improvements. *A 1% increase in the best estimate assumption would increase non-participating actuarial liabilities by approximately $108 million.*

Annuitant mortality is also studied regularly and the results used to modify established industry experience annuitant mortality tables. Mortality improvement has been projected to occur throughout future years for annuitants. *A 1% decrease in the best estimate assumption would increase non-participating actuarial liabilities by approximately $129 million.*

Morbidity – The Company uses industry developed experience tables modified to reflect emerging company experience. Both claim incidence and termination are monitored regularly and emerging experience is factored into the current valuation. *For products for which morbidity is a significant assumption a 1% adverse change in the best estimate assumption would increase non-participating actuarial liabilities by approximately $60 million.*

Property and casualty reinsurance – Actuarial liabilities for property and casualty reinsurance written by LRG, a subsidiary of London Life, are determined using accepted actuarial practices for life insurers in Canada. Reflecting the long-term nature of the business, reserves have been established using cash flow valuation techniques including discounting. The reserves are based on cession statements provided by ceding companies. In certain instances, LRG management adjusts cession statement amounts to reflect management's interpretation of the treaty. Differences will be resolved via audits and other loss mitigation activities. In addition, reserves also include an amount for incurred but not reported losses (IBNR), which may differ significantly from the ultimate loss development. The estimates and underlying methodology are continually reviewed and updated and adjustments to estimates are reflected in income. LRG analyzes the emergence of claims experience against expected assumptions for each reinsurance contract separately and at the portfolio level. If necessary, a more in depth analysis is undertaken of the cedant experience.

Investment returns – The assets which correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in the Canadian Asset Liability Method (CALM) to determine actuarial liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under several interest rate scenarios (including increasing and decreasing rates) is done to provide for reinvestment risk.

One way of measuring the interest rate risk associated with this assumption is to determine the effect on the present value of the projected net asset and liability cash flows of the non-participating business of the Company of an immediate and permanent 1% increase or 1% decrease in interest rates at each future duration. These interest rate changes will impact the projected cash flows.

- *The effect of an immediate and permanent 1% increase in interest rates at each future duration would be to decrease the present value of these net projected cash flows by approximately $31 million.*
- *The effect of an immediate and permanent 1% decrease in interest rates at each future duration would be to decrease the present value of these net projected cash flows by approximately $149 million.*

The level of actuarial liabilities established under CALM valuation provides for interest rate movements significantly greater than the 1% shifts shown above.

In addition to interest rates, the Company is also exposed to movements in equity markets.

Some policy liabilities are supported by equities, for example segregated fund products and products with long-tail liabilities. Generally these liabilities will fluctuate in line with equity market values. There will be additional impacts on these liabilities as equity market values fluctuate. A 10% increase in equity markets would be expected to additionally decrease non-participating actuarial liabilities by approximately $42 million. A 10% decrease in equity markets would be expected to additionally increase non-participating actuarial liabilities by approximately $245 million. Given the declines in the equity markets over the last half of 2008, more of the guarantees provided under our segregated fund products are "in-the-money".

Expenses – Unit expense studies are updated regularly to determine an appropriate estimate of future expenses for the liability type being valued. Expense improvements are not projected. An inflation assumption is incorporated in the estimate of future expenses consistent with the interest rate scenarios projected under CALM. *A 10% increase in the best estimate maintenance unit expense assumption Company wide would increase the non-participating actuarial liabilities by approximately $158 million.*

Policy termination – Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where the Company has no experience with specific types of policies or its exposure is limited. *A 10% adverse change in the best estimate policy termination assumption would increase non-participating actuarial liabilities by approximately $345 million.*

Policyholder dividends – Future policyholder dividends are included in the determination of actuarial liabilities for participating policies, with the assumption that policyholder dividends will change in the future to reflect the experience of the respective participating accounts, consistent with the participating policyholder dividend policies. It is our expectation that associated with changes in the best estimate assumptions for participating business would be corresponding changes in policyholder dividend scales that would not result in a material net change in actuarial liabilities for participating business.

Income taxes – As multinational life insurance companies, the Company's primary Canadian operating subsidiaries are subject to a regime of specialized rules prescribed under the Income Tax Act (Canada) for purposes of determining the amount of the companies' income that will be subject to tax in Canada. Accordingly, the determination of the companies' provision for income taxes involves the application of these complex rules in respect of which alternative interpretations may arise.

Management recognizes that interpretations it may make in connection with its tax filings may ultimately differ from those made by the tax authorities and accounts for these potential differences in its financial statements. Upon resolution of any such differences, amounts provided by management may be recognized in earnings to reflect actual experience.

The Company has substantial future income tax assets. The recognition of future tax assets depends on management's assumption that future earnings will be sufficient to realize the deferred benefit. The amount of the asset recorded is based on management's best estimate of the timing of the reversal of the asset.

Employee future benefits – The Company's subsidiaries maintain contributory and non-contributory defined benefit and defined contribution pension plans for certain employees and advisors. The defined benefit pension plans provide pensions based on length of service and final average pay. Certain pension payments are indexed either on an ad hoc basis or a guaranteed basis. The defined contribution pension plans provide pension benefits based on accumulated employee and Company contributions. The Company's subsidiaries also provide post-retirement health, dental and life insurance benefits to eligible employees, advisors and their dependents. For further information on the Company's pension plans and other post-retirement benefits refer to note 18 to the 2008 Consolidated Financial Statements.

Accounting for pension and other post-retirement benefits requires estimates of future returns on plan assets, expected increases in compensation levels, trends in health care costs, as well as the appropriate discount rate for accrued benefit obligations. These assumptions are determined by management using actuarial methods and are reviewed and approved annually. Emerging experience, different from the assumptions, will be revealed in future valuations and will affect the future financial position of the plans and net periodic benefit costs.

Significant assumptions – employee future benefits At December 31

	Defined benefit pension plans		Other post-retirement benefits	
	2008	2007	**2008**	2007
Weighted average assumptions used to determine benefit cost				
Discount rate	**5.9%**	5.1%	**5.8%**	5.1%
Expected long-term rate of return on plan assets	**6.6%**	6.7%	**–**	–
Rate of compensation increase	**4.2%**	4.1%	**4.2%**	4.2%
Weighted average assumptions used to determine accrued benefit obligation				
Discount rate	**6.8%**	5.9%	**7.1%**	5.8%
Rate of compensation increase	**4.2%**	4.2%	**3.9%**	4.2%

Significant assumptions – The discount rate assumption used in determining pension and post-retirement benefit obligations and net benefit expense reflects the market yields, as of the measurement date, on high-quality debt instruments with cash flows that match expected benefit payments.

The expected rate of return on the plan assets assumption is based on expected returns for the various asset classes, weighted by portfolio allocation. Anticipated future long-term performance of individual asset categories is considered, reflecting expected future inflation and expected real yields on fixed-income securities and equities. Other assumptions are based on actual plan experience and our best estimates.

As these assumptions relate to factors that are long term in nature, they are subject to a degree of uncertainty. Differences between actual experience and the assumptions, as well as changes in the assumptions resulting from changes in future expectations, result in increases or decreases in the pension and post-retirement benefits expense in future years. There is no assurance that the plans will be able to earn assumed rates of return, and market driven changes to assumptions could impact future contributions and expenses.

The following table indicates the impact of changes to certain key assumptions related to pension and post-retirement benefits.

Impact of a change of 0.5% in significant assumptions

	Pension plan		Post-retirement	
	Obligation	Expense	Obligation	Expense
Discount rate				
Increase	$ (156)	$ (6)	$ (15)	$ –
Decrease	174	6	16	–
Expected long-term rate of return on plan assets				
Increase	n/a	(15)	n/a	n/a
Decrease	n/a	15	n/a	n/a
Rate of compensation increase				
Increase	26	5	–	–
Decrease	(24)	(5)	–	–

Funding – The Company's pension plans are funded to or above the amounts required by relevant legislation. During the year, the Company contributed $98 million ($47 million in 2007) to the pension plans. The principal post-retirement and other post-retirement benefit plans are unfunded. The Company funds benefit payments for these plans as incurred. During the year, these benefit payments totaled $16 million ($16 million in 2007).

ACCOUNTING POLICIES

Capital Disclosures – Effective January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535, *Capital Disclosures.* The section establishes standards for disclosing information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. The new requirements are for disclosure only and did not impact the financial results of the Company.

Financial Instrument Disclosure and Presentation – Effective January 1, 2008, the Company adopted the CICA Handbook Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation.* These sections replace existing Section 3861, *Financial Instruments – Disclosure and Presentation.* Presentation standards are carried forward unchanged. Disclosure standards are enhanced and expanded to complement the changes in accounting policy adopted in accordance with Section 3855, *Financial Instruments – Recognition and Measurement* during 2007.

FUTURE ACCOUNTING POLICIES

International Financial Reporting Standards – In February 2008, the CICA announced that GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. Although the CICA will permit early adoption of IFRS, Federally Regulated Financial Institutions have been precluded from early adoption by OSFI. The Company will be required to begin reporting under IFRS for the quarter ending March 31, 2011 and will be required to prepare an opening balance sheet and provide information that conforms to IFRS for comparative periods presented.

The Company has developed an IFRS changeover plan which will address key areas such as accounting policies, financial reporting, disclosure controls and procedures, information systems, education and training and other business activities.

The Company, as part of the changeover plan, is currently identifying differences in accounting policies on an ongoing basis and with respect to certain choices to effect conversion in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards. The Company has completed the diagnostic phase of the plan, which has initially identified the following accounting differences that may potentially have a significant impact:

- First-time adoption of IFRS
- Insurance accounting
- Consolidation / business combinations / goodwill and intangibles
- Financial statement preparation, presentation, and disclosure

The Company acknowledges that the above list is not exhaustive of all possible significant items that will occur upon the transition to IFRS. The impact on the Company's information technology, data systems and processes will be dependent upon the magnitude of change resulting from these and other items.

The Company is monitoring the potential impact of changes to financial reporting processes, disclosure controls and procedures, and internal controls over financial reporting. The Company has not yet quantified the effects of the potential significant differences between IFRS and GAAP which may or may not be material. As the implications of the conversion are identified, continual requirements for infrastructure, expertise, training and education will be assessed. The Company will continue to assess the impact of adopting IFRS, and will update its MD&A disclosures quarterly to report on the progress of its IFRS changeover plan.

Goodwill and Intangible Assets – Effective January 1, 2009, the Company will adopt the CICA Handbook Section 3064, *Goodwill and Intangible Assets.* This section replaces existing Section 3062, *Goodwill and Other intangible assets*, and Section 3450, *Research and Development Costs.* This section establishes new standards for the recognition and measurement of intangible assets, but does not affect the accounting for goodwill. The Company does not anticipate that this standard will have a material impact to the financial results of the Company.

SEGMENTED OPERATING RESULTS

The consolidated operating results of Lifeco include the operating results of Great-West Life, London Life, Canada Life, GWL&A, and commencing August 3, 2007, Putnam.

For reporting purposes, the consolidated operating results are grouped into four reportable segments, Canada, United States, Europe, and Lifeco Corporate reflecting geographic lines as well as the management and corporate structure of the companies.

CANADA

The Canadian segment of Lifeco includes the operating results of the Canadian businesses operated by Great-West Life, London Life, and Canada Life. There are two primary business units included in this segment. Through its Individual Insurance and Investment Products (IIIP) business unit, the Company provides life, disability and critical illness insurance products to individual clients, as well as accumulation products and annuity products for both group and individual clients in Canada. Through its Group Insurance business unit, the Company provides life, health, critical illness, disability and creditor insurance products to group clients in Canada.

Selected consolidated financial information – Canada

	For the three months ended December 31			For the twelve months ended December 31		
	2008	2007	% Change	2008	2007	% Change
Premiums and deposits	$ 4,368	$ 5,991	-27%	$ 17,581	$ 18,825	-7%
Sales	1,967	2,328	-16%	8,115	9,400	-14%
Fee and other income	230	266	-14%	1,034	1,029	–
Paid or credited to policyholders	1,510	3,673	-59%	5,748	8,397	-32%
Net income – common shareholders	228	246	-7%	1,003	973	3%
Total assets				$ 53,174	$ 52,477	1%
Segregated funds net assets				38,070	45,932	-17%
Proprietary mutual funds net assets				2,172	2,432	-11%
Total assets under administration				$ 93,416	$ 100,841	-7%

Net income – common shareholders

	For the three months ended December 31			For the twelve months ended December 31		
	2008	2007	% Change	2008	2007	% Change
IIIP	$ 120	$ 169	-29%	$ 673	$ 637	6%
Group Insurance	96	103	-7%	391	384	2%
Corporate	12	(26)	–	(61)	(48)	–
	$ 228	$ 246	-7%	$ 1,003	$ 973	3%

BUSINESS UNITS – CANADA

INDIVIDUAL INSURANCE & INVESTMENT PRODUCTS

BUSINESS PROFILE

In Canada, IIIP consists of four business lines: Individual Life Insurance, Living Benefits, Individual Retirement & Investment Services (IRIS) and Group Retirement Services (GRS). Products are distributed through Freedom 55 Financial™ and Great-West Life financial security advisors and Canada Life distribution channels, which include managing general agencies (MGAs) and their associated brokers, independent brokers as well as intercorporate agreements with other financial institutions.

The Company utilizes diverse, complementary distribution channels and is a leader in Canada in all individual product lines.

The individual lines of business access the various distribution channels through distinct product labels offered by Great-West Life, London Life, Canada Life and Quadrus Investment Services Ltd. (Quadrus). Unique products and services are offered to meet the needs of each distribution channel to allow the Company to maximize opportunities while minimizing channel conflict.

MARKET OVERVIEW

PRODUCTS AND SERVICES

The Company provides a wide array of protection and savings products that are distributed through multiple sales channels. Products are marketed under the Great-West Life, London Life and Canada Life brands.

The Company offers a wide range of segregated funds through its multiple distribution channels including 65 Freedom Funds™ to individual Freedom 55 Financial clients, 51 Generations™ Funds to individual Canada Life clients and 58 segregated funds to individual Great-West Life clients.

Quadrus offers 40 mutual funds under the Quadrus Group of Funds™ brand and over 3,200 third-party mutual funds. Mackenzie Financial Corporation, a member of the Power Financial Corporation group of companies, administers the Quadrus Group of Funds.

Market Position

- Manages largest portfolio of life insurance in Canada as measured by premium
- Pre-eminent provider of individual disability and critical illness insurance with 31% market share of in-force premium
- 30% market share of individual segregated funds
- 20% market share of group capital accumulation plans (GCAP)

Products and Services

Individual Insurance

Individual Life Insurance

- Term life
- Universal life
- Participating life

Living Benefits

- Disability
- Critical illness

Retirement & Investment Services

Products

- Segregated and mutual funds
- Retirement savings plans
- Non-registered savings programs
- Deferred profit sharing plans
- Defined contribution pension plans
- Payout annuities
- Deferred annuities
- Investment management services only plans
- Retirement income funds
- Life income funds

Administrative Services

- Employee stock purchase plans

Distribution

Associated with:

Great-West Life Distribution

- 1,893 Great-West Life financial security advisors
- 2,602 advisors associated with a number of intercorporate arrangements
- 6,813 independent brokers

London Life Distribution

- 3,198 Freedom 55 Financial security advisors

Canada Life Distribution

- 7,749 independent brokers associated with 55 Managing General Agencies (MGAs)
- 1,405 advisors associated with 17 national accounts
- 2,656 Investors Group consultants who actively sell Canada Life products
- 416 direct brokers and producer groups

Quadrus Investment Services Ltd. (also included in Great-West Life and London Life advisor counts):

- 3,717 investment representatives

Competitive Conditions

The individual insurance, savings, and investments marketplace is highly competitive. The Company's competitors include mutual fund companies, insurance companies, banks, investment advisors, as well as other service and professional organizations. Competition focuses on service, technology, cost and variety of investment options, investment performance, product features, price, and financial strength, as indicated by ratings issued by nationally recognized agencies.

2008 Developments

- Enhanced the life insurance portfolio by making the following changes to improve customer value and competitiveness: new term life insurance plans with lower rates, lower cost of insurance rates for certain universal life (UL) segments and increased policyholder dividends for London Life and Great-West Life participating policies.
- Individual Life sales growth continued the positive momentum from 2007 due to strong participating and term life sales.
- Introduced new critical illness offerings including enhanced loss of independent existence coverage, simplified return of premium options and a child coverage plan.
- Net asset flows for retail segregated funds of 1.5%, as a percentage of opening assets, and 15.2% for Quadrus Group of Funds compared favourably with the mutual fund industry result of 0.0% as reported by Investment Funds Institute of Canada (IFIC).
- Group Retirement Services (GRS) launched the *Member Investment Selection Service*, a new investment advice service that gives plan members access to advice on their group retirement plan investment options. It also addresses the key issues most plan sponsors face when providing investment advice to their plan members and backs the advice with a written agreement.
- Fidelity Investments Canada ULC has agreed to transition its Canadian group retirement record keeping business to Great-West Life. At October 22, 2008, this business had about 100 plan sponsors, 470 group retirement plans, 95,000 members and \$2.2 billion in assets under administration. This is the equivalent of 3 years of sales activity and grows our asset base in capital accumulation plans by approximately 10%. The assets will transition to Great-West Life in 2009.

Real Estate Funds

Great-West Life, London Life and Canada Life temporarily suspended withdrawals and transfers-out from their Real Estate Segregated Funds (the Funds), effective the close of business December 15, 2008. The economic situation in 2008 significantly increased investors' preference for liquidity, which impacted equity markets, including real estate. One of the impacts was an increase in withdrawals and transfers-out from the Funds. In accordance with the terms of the Information Folder governing the Funds, management determined the need to temporarily suspend withdrawals and transfers-out from the Funds in order to preserve unitholder value, to balance the interests of all unitholders and to treat everyone fairly. The companies are working to rebuild liquidity to support the long-term viability of the funds, and to enable the suspension to be lifted.

The Real Estate Funds have performed well over time and substantially outperformed common stock investments during 2008. The Funds are a unique asset class with high-quality, income-producing properties across Canada. As part of a well-diversified portfolio, the Funds continue to be appropriate for investors with a long-term investment horizon. The Funds remain open to contributions.

Operating Results

	For the three months ended December 31			For the twelve months ended December 31		
	2008	2007	% Change	2008	2007	% Change
Premiums and deposits	$ 2,722	$ 3,010	-10%	$ 11,118	$ 11,677	-5%
Sales	1,839	2,197	-16%	7,614	8,942	-15%
Fee and other income	182	219	-17%	840	852	-1%
Net income	120	169	-29%	673	637	6%

Premiums and deposits

In quarter

Individual Life premiums increased 9% to $742 million from the fourth quarter of 2007. Living Benefits premiums of $69 million were 5% higher than in 2007.

Market volatility contributed to a 32% decrease in total deposits made to individual proprietary investment funds versus 2007. Instead, retail clients turned to guaranteed investments leading to an increase in guaranteed interest deposits over 2007. Individual payout annuity premiums increased 50% as a result of improved competitiveness and clients' increased demand for guarantees.

GRS premiums and deposits decreased by 10% mainly due to a decline in group payout annuity premiums partially offset by a 13% increase in deposits to investment only plans. Note that both of these product lines depend on a small number of very large transactions so results can vary significantly each period.

Twelve months

Individual Life premiums increased 8% to $2,751 million from the same period in 2007, reflecting both continued strong persistency and sales growth. Living Benefits premiums of $268 million were 4% higher than in 2007.

Individual proprietary investment funds deposits decreased 16% and guaranteed interest deposits increased 59% for the same reasons as the in quarter period. Individual payout annuity premiums declined 11% over 2007 due to pricing changes aimed at focusing sales in targeted segments of the market.

GRS premiums and deposits were down 3% from last year. Deposits to group capital accumulation plans (GCAP) grew by 3% in large part due to a $291 million transfer of assets from our securities administration services into insurance products. The GCAP growth was offset by a 4% decline in deposits to investment only plans and a 37% decline in premiums to group payout annuities. Note that both of these product lines depend on a small number of very large transactions so results can vary significantly each period.

Sales

In quarter

Individual Life sales of $79 million were up 8% from the fourth quarter of 2007 driven by strong participating and term life sales growth. Sales of Living Benefits were the same as 2007 at $12 million.

Sales of proprietary retail investment funds decreased 26% as a result of recent economic uncertainty and market volatility.

GRS sales declined by 18% compared to 2007, with declines in all product lines. Market volatility has contributed to a significant slow down in activity in the group market as plan sponsors are reluctant to change service providers or create plans in the uncertain economic and market environment.

Twelve months

Individual Life sales for 2008 of $260 million were 10% higher than 2007 driven by strong participating and term life sales growth. Living Benefits sales were $45 million, up 5% from 2007 due to growth in critical illness sales.

Proprietary retail investment funds' sales declined by 15% compared to 2007 for the same reasons as the in quarter period.

GRS sales declined by 25% compared to 2007 with a 1% increase in annualized cash flows from new GCAP plans offset by declines of 28% in GCAP lump sum transfers, 27% in investment only plan sales and 37% in payout annuity sales. Activity in the group retirement market has been slow this year as volatile markets and other economic factors have made plan sponsors reluctant to make changes to their plans.

Fee and other income

Assets under administration December 31

	2008	2007
Business/Product		
Individual Retirement & Investment Services		
Risk-based products	$ 6,136	$ 6,486
Segregated funds	18,593	22,649
Proprietary mutual funds	2,172	2,432
Group Retirement Services		
Risk-based products	6,329	6,444
Segregated funds	19,477	23,283
Total assets under administration	$ 52,707	$ 61,294
Other plan assets (1)		
Business/Product		
Individual Retirement & Investment Services	$ 2,818	$ 3,554
Group Retirement Services	$ 1,981	$ 4,478
Total assets under administration and other plan assets		
Individual Retirement & Investment Services (1)	$ 29,719	$ 35,121
Group Retirement Services (1)	$ 27,787	$ 34,205

(1) Includes mutual funds distributed by Quadrus Investment Services, stock purchase plans administered by London Life (2007 amounts include stock purchase plans and mutual funds administered by GRS Securities Inc.) and portfolio assets managed by Laketon Investment Management.

In quarter

Individual Retirement and Investment Services (IRIS) and GRS fee income totaled $182 million, a decrease of 16% over last year for IRIS and 18% for GRS due to a drop in average segregated fund assets of 25% and 23% respectively. For IRIS, the impact on fees was partially offset by a shift to higher than average fee generating funds.

Twelve months

IRIS and GRS fee income totaled $840 million, a decrease of approximately 1% from last year for IRIS and 3% for GRS. For IRIS, the decrease was due to average segregated fund asset declines of 10%, partly offset by a shift to higher than average fee generating funds. Average segregated fund assets in the core GCAP product declined by 9%. The impact of this decrease was partially offset by a performance bonus related to the management of a fund for a large client.

Net income

In quarter

Net income attributable to common shareholders for the fourth quarter of 2008 was $120 million compared to $169 million in 2007. The decrease is principally the result of lower segregated fund fee income, a decrease in the value of UL spreads and lower expense gains, partially offset by better mortality gains, greater cash flow valuation method (CFVM) gains and slightly higher basis change releases.

Net income attributable to the participating account was $19 million in 2008 compared to $33 million in 2007.

Twelve months

Net income attributable to common shareholders for 2008 was $673 million compared to $637 million in 2007. The increase is principally the result of growth in mortality and morbidity gains, updated future tax estimates relating to the Department of Finance proposal to amend tax legislation in connection with fair value accounting, higher basis change releases and greater CFVM gains partially offset by asset impairment charges, a decrease in the value of UL spreads and lower segregated fund fee income in the last half of 2008.

Net income attributable to the participating account was $57 million in 2008 compared to $109 million in 2007.

Outlook – Individual Insurance & Investment Products

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding Non-GAAP Financial Measures at the beginning of this document.

Despite a very difficult economic environment in 2008, the IIIP division again delivered strong results. Our reputation for strength and stability, combined with prudent business practices and exemplary expense management, positions the organization well for 2009. We will continue to align product, service and distribution strategies to maximize sales, revenues and earnings.

While the Company will use its diverse distribution network to its advantage, we expect that fee income from segregated funds and mutual funds will be lower in 2009 as a result of the reduction in assets under management.

Given the challenging economic environment, expense management will be critically important to delivering strong financial results. This will be achieved through disciplined operational expense controls and focused investment in only the highest priority business initiatives.

The current market volatility underscores the soundness of the organization's strategy of distributing products through professional advisors. In 2009, we will continue to provide advisors with strategies and tools for helping clients focus on achieving long-term financial security regardless of market fluctuations. This approach benefits persistency of existing business and helps attract new clients. A key distribution strategy is to maximize use of common tools, processes and support, while providing unique support to specific segments of advisors.

Our broad spectrum of distribution associates, including exclusive and independent channels, and multiple brands provides important strategic advantages within the Canadian market. The division will continue to competitively develop, price and market its comprehensive range of products. We will maintain our focus on sales and service support for large cases in all channels.

As a leading Canadian provider of individual life insurance, Great-West, London Life and Canada Life anticipate another year of healthy life insurance sales in 2009. Our long-term participating account investment strategy includes various asset classes, including fixed income, common stock and real estate, to enhance long term yields for policyholders. Our strategy of spreading investment gains and losses over a limited number of years for the purpose of determining policyholder dividends helps reduce undue short term volatility in the dividend scales. These and other unique benefits of participating life insurance will offer important advantages to clients in the coming year. Our suite of living benefits products, of which we are also a leading provider, further strengthens our protection product shelf.

Due to a significant increase in new life insurance business in 2008, the organization has heightened its commitment to providing exemplary new business service. These improvements will continue to roll out in 2009, enhancing advisors' and clients' service experience.

In the coming year, the organization will market the advantages of investment funds, including segregated funds, of which we are a leading provider. These unique investment products provide valuable benefits in times of uncertain markets. Recent enhancements to Quadrus Group of Funds, offered through our mutual fund dealer Quadrus Investment Services, include tax-efficient distribution options and corporate class funds. In addition, the organization has introduced tax-free savings accounts (TFSAs). These new flexible investment savings vehicles allow Canadians to earn investment income, including capital gains, tax free. Canada Life's TFSA is part of its segregated fund offering, while distribution associates of London Life and Great-West Life offer the Quadrus Group of Funds TFSA.

In 2009, we will work with Fidelity Investments Canada to transition its Canadian group retirement and savings plan record-keeping business to Great-West Life. The Group Retirement Services organization will also market its innovative member investment selection service, a new offering giving plan members access to personal investment advice.

GROUP INSURANCE

Business Profile

In Canada, the Company offers effective benefit solutions for large and small employee groups. Through its Canada Life subsidiary, the Company is a recognized leader in the creditor insurance business with $1.7 billion in annual direct premium.

Market Overview

Products and Services

The Company provides a wide array of life, health and creditor insurance products that are distributed primarily through Group sales offices across the country.

Market Position
- Employee benefits for more than 33,000 plan sponsors
- 22.1% market share for employee/employer plans
- Leading market share for creditor plans

Products and Services

Life and Health
- Life
- Disability
- Critical illness
- Accidental death & dismemberment
- Dental plans
- Expatriate coverage
- Extended health care plans

Creditor
- Creditor life
- Creditor disability
- Creditor job loss
- Creditor critical illness

Distribution
- 106 account managers and sales staff located in 15 Group Offices
- 112 Regional Employee Benefits Managers and Selectpac Specialists located in Resource Centres

Competitive Conditions

There are three large group insurance carriers in Canada with significant market positions, led by the Company with a 22.1% market share. There are a number of other smaller companies operating nationally and several regional and niche competitors. The group insurance market is highly competitive. A strong market share position is essential to compete successfully in the Canadian group insurance market.

Within the small and mid-sized case markets, there are significant pricing pressures as employers seek to find ways to counter the inflationary costs of health care. A company with low cost operations, extensive distribution networks, strong service capability and cost-containment product offerings will have a competitive advantage in these markets.

In the larger case market, while low cost is a factor, service excellence and cost-containment product innovations are most important. In this market, a company that can effectively develop and implement innovative products and efficient administrative processes through the use of new technologies to meet emerging client requirements will differentiate itself and achieve competitive advantage.

2008 Developments

- Net income attributable to shareholders was $391 million, 2% higher than 2007.
- Overall sales results increased by 9%, reflecting an increase in the large size case market.

Operating Results

	For the three months ended December 31			For the twelve months ended December 31		
	2008	2007	% Change	**2008**	2007	% Change
Premiums and deposits	**$ 1,646**	$ 2,981	-45%	**$ 6,463**	$ 7,148	-10%
Sales	**128**	131	-2%	**501**	458	9%
Fee and other income	**35**	33	6%	**142**	131	8%
Net income	**96**	103	-7%	**391**	384	2%

Premiums and deposits

In quarter

Total net premiums and deposits were $1,646 million, which is $1,335 million lower than 2007. In 2007, $1,574 million of premiums were recaptured under a bulk reinsurance agreement and $128 million of premiums were ceded under a bulk reinsurance agreement. Excluding these items, premiums and deposits increased 7% over the comparative period in 2007. Small/mid-size case premiums and deposits increased 5% and large case net premium increased 8%.

Twelve months

Total net premiums and deposits were $6,463 million, which is 10% lower than 2007. In 2007, $1,574 million of premiums were recaptured under a bulk reinsurance agreement and $449 million of premiums were ceded under a bulk reinsurance agreement. Excluding these items, premiums and deposits increased 7% over the comparative period in 2007. Small/mid-size case premiums and deposits increased 7% and large case net premium increased 7%, despite a large single premium sale for $32 million in 2007 which was not repeated in 2008.

Sales

In quarter

Overall sales results in the quarter were down 2% compared to 2007. The decrease was mainly due to lower sales in the small case and large case markets partly offset by higher sales in creditor/direct marketing as a result of one large sale in 2008 for $14 million compared to one large sale for $7 million in 2007.

Twelve months

Overall sales results were up 9% compared to 2007. The increase was mainly due to large case sales, including a higher number of new sales compared to 2007.

Fee and other income

Fee and other income is derived primarily from ASO contracts, under which the Company provides group insurance benefit plan administration on a cost-plus basis.

In quarter

Fee and other income was up 6% mainly due to higher claims volumes.

Twelve months

Fee and other income was up 8% for the same reason as the in quarter period.

Net income

In quarter

Net income attributable to common shareholders was $96 million, a decrease of 7% compared to 2007. The results reflect a decrease in group health experience on long term disability cases, particularly in the mid-size market and a decrease in group life mortality experience mainly due to actuarial reserve basis changes. These decreases were partly offset by improved group health experience mainly due to actuarial reserve basis changes.

Twelve months

Net income attributable to common shareholders was $391 million, a 2% increase compared to 2007. The results reflect improved group health experience mainly due to actuarial reserve basis changes and improved expense margins. These increases were partly offset by a decrease in group health experience on long term disability cases particularly in the mid-size market and a decrease in group life mortality experience mainly due to actuarial reserve basis changes.

Outlook – Group Insurance

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding Non-GAAP Financial Measures at the beginning of this document.

The Company is well positioned within the Canadian group insurance business with leading market shares in many case size, regional and benefit market segments. The Company believes that this market share position, together with its low cost position and extensive distribution capability will facilitate continued growth in revenue premium. Through the effective investment in technologies, the Company expects to achieve continued reductions in administration and claims adjudication costs, thereby enhancing its competitive position.

As the costs of employee benefits continue to gain the attention of plan sponsors, the Company is developing an array of enhanced products and services for plan members, plan sponsors and their advisors. A particular focus in 2009 will be the introduction of innovative Administrative Services Only (ASO) plan designs, as well as a continued focus on absence and disability management services, many of which will support earlier return to work capabilities. The Company will also continue its efforts to improve process effectiveness, and therefore unit costs and customer service.

Given the challenging economic environment, expense management will be critically important to delivering strong financial results. This will be achieved through disciplined operational expense controls and focused investment on only the highest priority business initiatives.

CANADA CORPORATE

Canada Corporate consists of items not associated directly with, or allocated to the Canadian business units.

Net income

In quarter

Net income in the quarter was $12 million compared to a charge of $26 million in 2007. The increase in earnings includes a $30 million year-over-year increase in the mark-to-market adjustment in connection with two series of Lifeco Preferred Shares, Series D and Series E, partially offset by changes in tax related items.

Twelve months

Net income for 2008 was a charge of $61 million compared to a charge of $48 million in 2007. The decrease in earnings is related to tax items offset by lower accrued benefit expenses.

United States

The United States operating results for Lifeco include the results of GWL&A, and the results of the insurance businesses in the United States branches of Great-West Life and Canada Life, together with an allocation of a portion of Lifeco's corporate results. Commencing August 3, 2007, the results also include Putnam.

Translation Of Foreign Currency

Foreign currency assets and liabilities are translated into Canadian dollars at the market rate at the end of the financial period. All income and expense items are translated at an average rate for the period.

Currency translation impact is a non-GAAP financial measure which attempts to remove the impact of changed currency translation rates on GAAP results. *Refer to Cautionary Note regarding Non-GAAP Financial Measures at the beginning of this report.*

Business Profile

Financial Services

GWL&A provides an array of financial security products, including employer-sponsored defined contribution retirement plans and defined benefit plans for certain market segments. Through relationships with government plan sponsors, the Company is one of the largest providers of services to state defined contribution plans, with 14 state clients as well as the government of Guam. It also provides annuity and life insurance products for individuals, families and corporate executives. Through its FASCore subsidiary, it offers private-label recordkeeping and administrative services for other providers of defined contribution plans.

Asset Management

Putnam provides investment management, certain administrative functions, distribution, and related services through a broad range of investment products, including the Putnam Funds, its own family of mutual funds which are offered to individual and institutional investors. Revenue is derived from the value and composition of assets under management, which includes domestic and international equity and debt portfolios; accordingly, fluctuations in financial markets and in the composition of assets under management affect revenues and results of operations.

Market Overview

Products and Services

The Company provides a focused product offering that is distributed through a variety of channels.

Financial Services

Market Position
- Fourth largest defined contribution record-keepers in the country, providing services for 3,739,464 participant accounts
- Significant market share in state and government deferred compensation plans
- Significant market share in business-owned life insurance (BOLI) purchased by financial institutions

Products and Services
- Retirement plans for public, corporate and nonprofit employers
- Enrollment services, communication materials, investment options and education services to employer-sponsored defined contribution plans
- Comprehensive administrative and recordkeeping services for financial institutions and employer-sponsored defined contribution plans and associated defined benefit plans
- Investment management products and services for both variable and fixed fund investment options
- Customized individual life insurance and annuity products
- Business-owned life insurance (BOLI) products

Distribution
- Defined contribution products are distributed by GWL&A and its affiliates and a network of independent agencies
- 436 regional sales directors, representatives and service personnel serve the retirement market
- FASCore provides its recordkeeping and administrative services directly to financial institutions and custom plans
- Customized individual life insurance and annuity products are distributed through financial institutions such as banks and discount brokers
- Business-owned life insurance products are distributed by GWL&A and through independent specialized benefits consultants

Asset Management

Market Position
- A Global asset manager with assets under management of US$106.0 billion as of December 31, 2008
- International distribution includes sales teams that are focused on major institutional markets in Europe, the Middle East, Southeast Asia and Australia and through strategic distribution partnerships in Japan, Canada and Germany

Products and Services

Investment Management Products & Services
- Individual retail investors – a family of open-end and closed-end mutual funds, college savings plans and variable annuity products
- Institutional investors – defined benefit and defined contribution retirement plans sponsored by corporations, state, municipal and other governmental authorities, retirement plans sponsored by unions under the Taft-Hartley Act, university endowment funds, charitable foundations, and collective investment vehicles (both U.S. and non-U.S.)
- Alternative investment products across the fixed income, currency, quantitative and equity groups

Administrative Services
- Transfer agency, underwriting, distribution, shareholder services, trustee and other fiduciary services

Distribution

Individual Retail Investors
- A broad network of distribution relationships with unaffiliated broker-dealers, financial planners, registered investment advisers and other financial institutions that distribute the Putnam Funds to their customers, which, in total, includes more than 150,000 advisors in over 2,000 firms
- Sub-advisory relationships and Putnam-labeled funds as investment options for insurance companies and non-U.S. residents
- Retail distribution channels are supported by Putnam's sales and relationship management team

Institutional Investors
- Supported by Putnam's dedicated account management, product management, and client service professionals
- Strategic relationships with several investment management firms outside of the United States

Competitive Conditions

Financial Services

The life insurance, savings, and investments marketplace is competitive. The Company's competitors include mutual fund companies, insurance companies, banks, investment advisors, and certain service and professional organizations. No one competitor or small number of competitors is dominant. Competition focuses on service, technology, cost, variety of investment options, investment performance, product features, price, and financial strength as indicated by ratings issued by nationally recognized agencies.

Asset Management

Putnam's investment management business is highly competitive. Putnam competes with other providers of investment products and services primarily on the basis of the range of investment products offered, investment performance, distribution, scope and quality of shareholder and other services, and general reputation in the marketplace. Putnam's investment management business is also influenced by general securities market conditions, government regulations, global economic conditions and advertising and sales promotional efforts. Putnam competes with other mutual fund firms and institutional asset managers that offer investment products similar to Putnam's as well as products which Putnam does not offer. Putnam also competes with a number of mutual fund sponsors that offer their funds directly to the public, conversely, Putnam offers its funds only through intermediaries.

2008 Developments

- Adjusted net income from continuing operations in the quarter was US$68 million ($82 million), a decrease of 32% compared to last year, and US$292 million ($309 million) for 2008 or 15% lower than 2007.
- An after-tax gain of US$118 million was recognized in the first quarter of 2008 as a result of the termination of a long-standing assumption reinsurance agreement under which GWL&A had reinsured a block of U.S. participating policies (US$176 million after-tax), offset by strengthening of policy reserves associated with the additional overhead Financial Services will bear related to the sale of Healthcare (US$58 million after-tax).
- The 2008 results include US$30 million net of tax related to asset impairment charges.
- On October 1, 2008, Putnam issued a news release announcing that it will participate in the Money Market Guaranty Program recently introduced by the U.S. Treasury. Participation in this program will provide shareholders of Putnam's retail money market funds with protection, in the event of a fund's liquidation, against the net asset value of the funds falling below $0.995 per share.
- On September 24, 2008, Putnam issued a news release announcing that it had entered into a transaction with Federated Investors, Inc. that would result in the liquidation of Putnam's US$12.3 billion institutional Prime Money Market Fund. Under this transaction, shareholders of the Putnam Prime Money Market Fund would receive shares of the Federated Prime Obligations Fund on a $1-per-share for $1-per-share basis.

Goodwill and Intangible Assets Impairment

During the fourth quarter, the Company completed its annual test for goodwill and intangible assets impairment. The test resulted in the Company recording a non-cash, after-tax impairment charge of US$1,118 million ($1,353 million) in connection with goodwill and intangible assets related to the acquisition of Putnam. The after-tax results are net of Putnam's non-controlling interests portion of the charges of US$6 million. The impairment charge reflects management's assessment of the impact of the decline of Putnam's AUM as a result of the deterioration of investment market conditions since the acquisition date. The decrease in AUM, together with the current investment market and economic conditions and the expected timing of their future recovery have lowered the Company's previous estimates of Putnam's future revenues and cash flows.

The impairment charge resulted in a non-cash, pre-tax charge of US$901 million (US$560 million after-tax) related to intangible assets and a non-cash, pre-tax charge of US$899 million (US$558 million after-tax) related to goodwill. These charges are presented as other adjustments to net income.

A further discussion of impairment testing of goodwill and intangible assets can be found in the Critical Accounting Estimates section of this MD&A and note 7 to the Annual Financial Statements.

In conjunction with the goodwill and intangible assets charge, the Company also wrote off a future tax asset with regards to State taxes in the amount of US$28 million ($34 million) after-tax. This expense is represented as other adjustments to net income.

Sale of Healthcare to CIGNA

On April 1, 2008, Lifeco announced that GWL&A had completed the sale of its health care insurance business, Great-West Healthcare, to a subsidiary of CIGNA Corporation. As part of the transaction, GWL&A has received consideration of US$1.5 billion in gross proceeds, and approximately US$750 million, representing the amount of equity invested in the health care business, was made available for other purposes. The sale proceeds and the equity invested were applied to outstanding short term credit facilities and a term loan. (Refer to Liabilities section.)

The business remaining with GWL&A has been transferred to Financial Services Individual Markets. As required by generally accepted accounting principles, the statements of income and balance sheets of these business activities that have been disposed of are presented as discontinued operations for all periods in the consolidated financial statements.

The Company recorded a non-recurring gain on sale on the transaction of US$630 million or $649 million net of tax.

Expanded Restructuring at Putnam

During the fourth quarter of 2008, Putnam expanded its original restructuring plans to include a broader restructuring of its business. This expanded restructuring plan is intended to clear up complexities, better focus Putnam's service and distribution in core markets, respond to the impact of financial market conditions on assets and fee income, and build a culture that rewards excellence. It is expected to be completed in two phases. The first phase included a restructuring of Putnam's equity investment unit including consolidating fund offerings, emphasizing fundamental research, vesting full authority and responsibility with individual fund managers, and realigning manager incentives. The second phase will include the restructuring of Putnam's operations, distribution, and other areas. The total additional restructuring expenses associated with the expanded plan are US$58 million ($70 million) (US$38 million ($45 million) after-tax) and are reflected in restructuring expenses in the Summaries of Consolidated Operations. These expenses are represented as other adjustments to net income.

Selected consolidated financial information – United States

	For the three months ended December 31			For the twelve months ended December 31		
	2008	2007	% Change	2008	2007	% Change
Premiums and deposits	$ 8,243	$ 7,110	16%	$ 35,764	$ 15,374	–
Sales	8,397	7,549	11%	42,734	16,222	–
Fee and other income	335	414	-19%	1,442	1,001	44%
Paid or credited to policyholders	833	669	25%	2,366	2,631	-10%
Net income – continuing operations – common shareholders	(1,350)	98	–	(1,005)	366	–
Net income – continuing operations – common shareholders (US$)	(1,116)	100	–	(774)	343	–
Total assets				$ 31,923	$ 29,700	7%
Segregated funds net assets				17,824	17,567	1%
Mutual funds net assets				128,950	176,730	-27%
Total assets under administration				$ 178,697	$ 223,997	-20%

Net income – common shareholders

(US $ millions)	For the three months ended December 31 2008	2007	% Change	For the twelve months ended December 31 2008	2007	% Change
Continuing operations – adjusted	$ 68	$ 100	-32%	$ 292	$ 343	-15%
Discontinued operations – adjusted	–	44	–	43	189	-77%
Total – adjusted	68	144	-53%	335	532	-37%
Discontinued – gain on sale	–	–	–	630	–	–
Other adjustments	(1,184)	–	–	(1,066)	–	–
Total adjustments	(1,184)	–	–	(436)	–	–
Total	$ (1,116)	$ 144	–	$ (101)	$ 532	–

Net income – common shareholders

(C $ millions)	For the three months ended December 31 2008	2007	% Change	For the twelve months ended December 31 2008	2007	% Change
Continuing operations – adjusted	$ 82	$ 98	-16%	$ 309	$ 366	-16%
Discontinued operations – adjusted	–	43	–	43	203	-79%
Total – adjusted	82	141	-42%	352	569	-38%
Discontinued – gain on sale	–	–	–	649	–	–
Other adjustments	(1,432)	–	–	(1,314)	–	–
Total adjustments	(1,432)	–	–	(665)	–	–
Total	$ (1,350)	$ 141	–	$ (313)	$ 569	–

BUSINESS UNITS – UNITED STATES

FINANCIAL SERVICES

Operating Results

	For the three months ended December 31 2008	2007	% Change	For the twelve months ended December 31 2008	2007	% Change
Premiums and deposits	$ 1,926	$ 1,136	70%	$ 5,779	$ 5,026	15%
Sales	2,080	1,575	32%	12,749	5,874	–
Fee and other income	123	110	12%	446	486	-8%
Net income	112	71	58%	339	320	6%
Premiums and deposits (US$)	$ 1,592	$ 1,159	37%	$ 5,392	$ 4,664	16%
Sales (US$)	1,719	1,607	7%	12,272	5,515	–
Fee and other income (US$)	101	113	-11%	419	453	-8%
Net income (US$)	93	72	29%	316	297	6%

The income statement of Financial Services was restated for 2007 to reflect the impact of the discontinued operations (Healthcare). Indirect corporate overhead expense allocations were reallocated to Financial Services. The Company also retained one large group life case that is now included in Financial Services. The table below provides the impact on premiums and deposits and net income as it relates to the impact of the transferred policy to Financial Services as well as increased expenses due to overhead.

	For the three months ended December 31, 2007	For the twelve months ended December 31, 2007
Premiums and deposits	$ 25	$ 194
Net income	(3)	(14)
Premiums and deposits (US$)	$ 26	$ 178
Net income (US$)	(3)	(13)

Premiums and deposits

In quarter

Premiums and deposits for the fourth quarter of 2008 were US$1,592 million, an increase of US$433 million compared to the same period in 2007. The increase is attributable to increased premium on business-owned life insurance (BOLI) in Individual Markets from one large sale of US$350 million.

Twelve months

Premiums and deposits for the twelve months ended December 31, 2008 increased US$728 million over the same period in 2007. The increase is attributable to higher sales of the BOLI product and an increase in Retirement Services premiums and deposits related to transfers from the retail investment options to general account and segregated fund investment options.

Sales

In quarter

Sales for the fourth quarter of 2008 increased US$112 million compared to 2007. The increase is due to higher BOLI sales in the fourth quarter where one large sale contributed US$350 million.

Twelve months

Sales for the twelve months ended December 31, 2008 totaled US$12,272 million, an increase of 123%. The increase is in Retirement Services as a result of the deferred compensation plan sale to the Commonwealth of Massachusetts (which includes the conversion of 290,000 customer accounts and a large rollover of US$4.4 billion) and in Individual Markets due to higher sales of the BOLI product.

Retirement Services participant accounts totaling 3.739 million increased 6% compared to December 31, 2007.

Financial Services – Retirement Services customer account values US $ millions

	Change for the three months ended December 31		Total at December 31		
	2008	2007	2008	2007	% Change
General account – fixed options					
Public/Non-profit	$ (59)	$ (50)	$ 3,302	$ 3,342	-1%
401(k)	164	36	3,269	2,655	23%
	$ 105	$ (14)	$ 6,571	$ 5,997	10%
Segregated funds – variable options					
Public/Non-profit	$ (367)	$ (7)	$ 5,639	$ 6,457	-13%
401(k)	(1,063)	(216)	4,651	6,920	-33%
	$ (1,430)	$ (223)	$ 10,290	$ 13,377	-23%
Unaffiliated retail investment options & administrative services only					
Public/Non-profit	$ (8,501)	$ 148	$ 36,829	$ 46,319	-20%
401(k)	(3,092)	927	14,639	22,386	-35%
Institutional (FASCore)	(3,732)	(2,150)	23,603	27,509	-14%
	$ (15,325)	$ (1,075)	$ 75,071	$ 96,214	-22%

The decrease in the account values for segregated funds and unaffiliated retail investment options is attributable to the decline in the U.S. equities market, partially offset by the deferred compensation plan sale to the Commonwealth of Massachusetts (Refer to Sales section above). The increase in 401(k) general account is due to transfers from variable investment options to a more conservative fixed general account.

Fee and other income

In quarter

Fee income for the fourth quarter of 2008 decreased US$12 million compared to the same period in 2007. The decrease is due to lower average assets in segregated funds from a year over year drop in average U.S. equity market levels.

Twelve months

Fee income for the twelve months ended December 31, 2008 decreased US$34 million compared to the same period in 2007. The decrease is due to the Individual Markets business line, which recorded one time fees earned in 2007 that were not repeated in 2008, as well as lower average assets in segregated funds from a year over year drop in the U.S. equities market levels.

Net income

In quarter

Net income increased US$21 million compared to the same period in 2007, primarily due to positive investment margins and favourable mortality.

Twelve months

The increase in net income of US$19 million for the twelve months ended December 31, 2008, compared to a year ago, is due to a combination of lower operating expenses, positive investment margins and favourable income taxes including the recognition of benefits in connection with prior year income taxes. These increases were partly offset by a charge for asset impairment in 2008.

Outlook – Financial Services

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding Non-GAAP Financial Measures at the beginning of this document.

In 2009 Financial Services intends to continue its focus on providing excellent customer service and diversity of product offerings and distribution channels. The Company intends to continue its reinvestment in infrastructure through technology, service and product enhancements while also maintaining a solid internal control foundation.

Great-West Retirement services will continue to focus on developing and expanding new distribution channels in 2009 ensuring that through our successful partnerships with other distributors, we create a solid base for future growth. In addition, we plan on rolling out new and innovative products to retirement plan customers in the accumulation and distribution phase in the last half of 2009.

We expect that variable fee income will be lower in 2009 due to depressed market levels which will lower average asset balances compared to 2008.

In 2008 Individual Markets continued to strengthen relationships with key distributors which translated into substantial sales growth. Over 130 new BOLI clients were added during 2008. New relationships developed in 2008 should contribute to continued sales growth in 2009. With a continued emphasis on product simplicity, customer value, and product development collaboration, Great-West and Charles Schwab Co., Inc. are together working on ways to serve the annuity markets with accumulation and income products in 2009.

With the sale of the Healthcare division, there has been a major initiative to realign corporate shared services by evaluating the needs of the remaining businesses. Although substantially complete in 2008, this project will continue into 2009 with a focus on right sizing the corporate areas to support the dynamic growth environment of the Financial Services industry.

Strong expense management throughout the organization has always been a key part of the division's overall strategy for success. This combined with optimizing existing processes with a focus on excellent customer service is an important building block to ensure the Company's success in 2009.

ASSET MANAGEMENT

Putnam provides investment management, certain administrative functions, distribution, and related services through a broad range of investment products, including the Putnam Funds, its own family of mutual funds which are offered to individual and institutional investors. Revenue is derived from the value and composition of assets under management, which includes U.S. and international equity and debt portfolios; accordingly, fluctuations in financial markets and in the composition of assets under management affect revenues and results of operations.

The operating results include the results of Putnam from August 3, 2007, the date of acquisition.

Adjusted net income excludes the following items, after-tax:

Asset management adjustments

	US$	C$
Goodwill and intangible assets impairment charges	$ 1,118	$ 1,353
Future tax asset valuation allowance	28	34
Restructuring charge	38	45

OPERATING RESULTS

	For the three months ended December 31			For the twelve months ended December 31	Aug. 3 to Dec. 31	
	2008	2007	% Change	2008	2007 (1)	% Change
Premiums and deposits (2)	$ 6,317	$ 5,974	6%	$ 29,985	$ 10,348	–
Fee and other income						
Investment management fees	147	222	-34%	708	370	91%
Service fees	50	59	-15%	216	100	–
Underwriting and distribution fees	12	22	-45%	63	38	66%
Other	2	1	100%	4	2	100%
Fee and other income	211	304	-31%	991	510	94%
Net income – adjusted	(18)	26	–	(23)	42	–
Premiums and deposits (US$) (2)	$ 5,221	$ 6,096	-14%	$ 28,519	$ 10,262	–
Fee and other income						
Investment management fees (US$)	121	226	-46%	674	366	84%
Service fees (US$)	42	61	-31%	205	100	–
Underwriting and distribution fees (US$)	10	22	-55%	60	38	58%
Other	2	1	100%	4	2	100%
Fee and other income (US$)	175	310	-44%	943	506	86%
Net income – adjusted (US$)	(15)	27	–	(19)	42	–

(1) The 2007 comparative amounts include Putnam results since August 3, 2007.

(2) Premiums and deposits exclude Asset Management Prime Money Market Fund net deposits three months 2008 US$0, 2007 US$3,422 million and twelve months 2008 US$(7,508) million, 2007 US$4,781 million.

Premiums and deposits

Asset Management premiums and deposits includes deposits from gross sales of long term assets and excludes net sales of prime money market assets.

In quarter

Premiums and deposits for the fourth quarter of 2008 were US$5,221 million, a decrease of US$875 million compared to the same period in 2007. The decrease is attributable to a reduction in sales as a result of declining economic conditions.

Twelve months

Premium and deposits for the twelve months ended December 31, 2008 were US$28,519 million.

Fee and other income

Revenue is derived primarily from investment management fees, transfer agency and other shareholder service fees and underwriting and distribution fees. Generally, fees are earned based on average assets under management and may depend on financial markets, the relative performance of Putnam's investment products, and the number of retail shareholder accounts or sales.

In quarter

Fee and other income for the fourth quarter of 2008 decreased US$135 million compared to the same period in 2007 as a result of lower average AUM. Average AUM has decreased 31% in the quarter due to unfavourable market conditions and net redemptions. Changing market conditions have caused a shift in Putnam's asset mix, resulting in a change in revenue from management and service fees.

Twelve months

Fee and other income was US$943 million for the twelve months ended December 31, 2008. AUM has decreased 41% in 2008 due to unfavourable market conditions and net redemptions.

Net income

In quarter

Putnam incurred an earnings loss of US$15 million, net of financing expenses, during the fourth quarter of 2008, a decrease of US$42 million from the same period in 2007. This loss is largely due to lower revenues on lower AUM. As a substantial portion of the decrease in AUM occurred in the fourth quarter of 2008, the Company was unable to proportionately reduce its expenses in

the relatively short time frame. The recent declines in financial market values have negatively impacted investment management fees, service fees, investment income and net income. Moreover, changing market conditions have caused a shift in Putnam's asset mix, resulting in a change in revenue and income. Putnam also incurred a charge of US$5 million after-tax for "other-than-temporary" impairment of investments.

Twelve months

Putnam incurred an earnings loss of US$19 million, net of financing expenses, including a US$18 million after-tax charge relating to the Putnam Prime Money Market transaction and a US$5 million after-tax charge for "other-than-temporary" impairment of investments, for the twelve months ended December 31, 2008.

Assets under management

In the third quarter of 2008, Putnam liquidated its Prime Money Market Fund. Accordingly, the following table excludes Prime Money Market Funds to facilitate comparison to prior periods.

Assets under management US $ millions

	For the three months ended December 31			For the twelve months ended December 31	Aug. 3 to Dec. 31	
	2008	2007	% Change	2008	2007	% Change
Beginning assets	**$ 136,591**	$ 186,980	-27%	**$ 178,515**	$ 184,263	-3%
Sales (1)	**5,221**	6,096	-14%	**28,519**	10,262	–
Redemptions	**(12,676)**	(8,695)	–	**(45,687)**	(14,163)	–
Net asset flows	**(7,455)**	(2,599)	–	**(17,168)**	(3,901)	–
Impact of market/performance	**(23,439)**	(5,866)	–	**(55,650)**	(1,847)	–
Ending assets	**$ 105,697**	$ 178,515	-41%	**$ 105,697**	$ 178,515	-41%
Average assets under management	**$ 110,973**	$ 182,946	-39%	**$ 147,226**	$ 182,759	-19%

(1) Includes dividends reinvested

In quarter

Average assets for the quarter were US$111.0 billion, as follows: US$58.0 billion in mutual funds (US$109.2 billion in 2007) and US$53.0 billion in institutional accounts (US$73.7 billion in 2007). Assets under management were US$105.7 billion at December 31, 2008, compared with US$136.6 billion at September 30, 2008. The decrease in assets under management from September 30, 2008 to December 31, 2008 of $30.9 billion is due to the negative impact of market/performance of US$23.4 billion and net redemptions of US$7.5 billion.

Twelve months

Average assets for 2008 were $147.2 billion: mutual funds US$82.0 billion and institutional accounts US$65.2 billion.

Pro-Forma Putnam Assets Under Management

The Company's results include Putnam only from the August 3, 2007 date of acquisition. Accordingly, AUM for the three months and twelve months ended December 31, 2007 are presented here on a pro-forma basis to provide a more informative analysis of Putnam's assets under management.

In the third quarter of 2008, Putnam liquidated its Prime Money Market Fund. Accordingly, the following table excludes Prime Money Market Funds to facilitate comparison to prior periods.

Pro-forma assets under management US $ millions

	For the three months ended December 31			For the twelve months ended December 31		
	2008	2007	% Change	2008	2007	% Change
Beginning assets	**$ 136,591**	$ 186,980	-27%	**$ 178,515**	$ 187,782	-5%
Sales (1)	**5,221**	6,096	-14%	**28,519**	28,418	–
Redemptions	**(12,676)**	(8,695)	–	**(45,687)**	(40,735)	–
Net asset flows	**(7,455)**	(2,599)	–	**(17,168)**	(12,317)	–
Impact of market/performance	**(23,439)**	(5,866)	–	**(55,650)**	3,050	–
Ending assets	**$ 105,697**	$ 178,515	-41%	**$ 105,697**	$ 178,515	-41%
Average assets under management	**$ 110,973**	$ 182,946	-39%	**$ 147,226**	$ 186,585	-21%

(1) Includes dividends reinvested

Twelve months

Average assets under management for the twelve months ended December 31, 2008 were US$147.2 billion, a decrease of US$39.4 billion from 2007. The decrease in assets under management from December 31, 2007 to December 31, 2008 of US$72.8 billion resulted primarily from the negative impact of market/performance and net redemptions.

Outlook – Asset Management

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding Non-GAAP Financial Measures at the beginning of this document.

On July 1, 2008, Putnam named Robert L. Reynolds as President and CEO, who brings to Putnam substantial industry experience, energy and vision. Since his arrival, Putnam has established the following key strategies for the organization:

- Deliver superior investment performance,
- Launch focused, innovative and high-quality products,
- Earn a leadership position in the U.S. mutual fund industry,
- Become the retirement partner of choice for advisors, plan sponsors and participants,
- Grow Putnam's institutional businesses domestically and internationally.

To address these strategies, Putnam has added to the senior leadership team in the areas of Investment Management, Product and Marketing, Retirement Solutions, Finance and other areas. Additionally, Putnam has made key hires of portfolio managers and senior stock analysts to strengthen Putnam's equity investing teams. In January 2009, Putnam launched the industry's first suite of target absolute return mutual funds designed to seek annualized total returns of 1%, 3%, 5%, or 7% above those of U.S. Treasury bills over a period of three years or more, and also launched a suite of global sector mutual funds. Management believes that Putnam's strengths position it well to take advantage of market opportunities.

Putnam has a broad investment management platform. As of December 31, 2008, Putnam managed 93 mutual funds which are diversified by style, asset class and geography. Putnam's experienced retail wholesaling team covers a broad range of geographic and product markets and distribution channels in the United States, maintaining more than 150,000 financial advisor relationships representing approximately 6.6 million shareholder accounts as of December 31, 2008. Putnam's institutional sales team is aligned by geographic territory and client type, both domestically and internationally.

In 2008, Putnam operated in a period of sustained volatility in global financial markets. The recent declines in financial market values, including those experienced during the period from September through December 2008, have negatively impacted Putnam's investment management fees, service fees, investment income and net income. Due to the reduction of assets under management, we expect revenues will be lower in 2009 as a result. Putnam will continue to align its business and cost structure to respond to changes in the financial markets. Profit margins may be reduced if expenses are not reduced in proportion to declines in revenues.

Factors that impact Putnam's assets under management and revenue in the future include declines in equity markets, changes in fixed-income markets, changes in interest rates and defaults, recent economic developments, political and other economic risks, redemptions and other withdrawals, changing investments trends, relative investment performance and changes in Putnam's asset mix or to Putnam's client base. Putnam's future expenses may be impacted by further efforts to add to staff or retain key staff, outsourcing decisions and cost reductions.

UNITED STATES CORPORATE

Net Income

In quarter

Net income for the fourth quarter was a charge of US$10 million ($12 million) compared to US$1 million ($1 million) for the same period of 2007, primarily due to higher taxes partially offset by higher investment income.

Twelve months

Net income was US$113 million ($111 million) compared to US$4 million ($4 million) for the same period of 2007. There were two non-recurring items that occurred in the first quarter of 2008. The first item is a gain of US$176 million in connection with the termination of a long-standing assumption reinsurance agreement under which GWL&A had reinsured a block of participating policies. The second item is a US$58 million after-tax charge from the strengthening of policy reserves associated with the additional overhead Financial Services will bear related to the sale of the Healthcare business.

DISCONTINUED OPERATIONS (HEALTHCARE)

On April 1, 2008 GWL&A completed the sale of its health care business, Great-West Healthcare. As part of the transaction, GWL&A received consideration of US$1.5 billion in gross proceeds, and approximately US$750 million, representing the amount of equity invested in the health care business, was made available for other purposes. The sale proceeds and the equity invested were applied to outstanding short term credit facilities and a term loan. (Refer to Liabilities section.)

As a result of the sale a gain of US$995 million (US$630 million after-tax) ($649 million after-tax) was recorded in net income from discontinued operations on the Summary of Consolidated Operations. The gain is net of a charge of US$320 million (US$203 million after-tax) as a result of costs associated with the sale.

In accordance with the CICA Handbook, the operating results and assets and liabilities of the health care business have been presented as discontinued operations in the financial statements of the Company. Net income from discontinued operations, excluding the gain on sale of Healthcare, was US$43 million. This reflects only the earnings from the first quarter of 2008, compared to US$189 million for the twelve months ended December 31, 2007.

Europe

The European segment is broadly organized along geographically defined market segments and offers protection and wealth management products, including payout annuity products, and reinsurance. The segment is comprised of two distinct business units: Insurance & Annuities, which consists of operations in the United Kingdom, Isle of Man, Ireland, and Germany; and Reinsurance, which operates primarily in the United States, Barbados and Ireland.

The Insurance & Annuities business is conducted through Canada Life and its subsidiaries. The Reinsurance business is conducted through Canada Life, LRG, and their subsidiaries.

Translation of Foreign Currency

Foreign currency assets and liabilities are translated into Canadian dollars at the market rate at the end of the financial period. All income and expense items are translated at an average rate for the period.

Currency translation impact is a non-GAAP financial measure which attempts to remove the impact of changed currency translation rates on GAAP results. *Refer to Cautionary Note regarding Non-GAAP Financial Measures at the beginning of this document.*

Business Profile

Insurance & Annuities

The international operations of Canada Life and its subsidiaries are located primarily in Europe, and offer a focused portfolio of protection and wealth management products and related services mainly in the United Kingdom, Isle of Man, Ireland and Germany.

The core products offered in the United Kingdom are payout annuities, savings and group insurance. These products are distributed through independent financial advisors and employee benefit consultants. The Isle of Man operation provides savings and individual protection products that are sold through independent financial advisors in the United Kingdom and in other selected territories.

The core products offered in Ireland are individual insurance and savings and pension products. These products are distributed through independent brokers and a direct sales force.

The German operation focuses on pension and individual protection products that are distributed through independent brokers.

Canada Life has continued to increase its presence in its defined market segments by focusing on the introduction of new products and services, enhancement of distribution capabilities and intermediary relationships.

Reinsurance

The Company's reinsurance business is comprised of operations in the United States, Barbados and Ireland.

In the United States, the Company's reinsurance business is carried on through the U.S. branch of Canada Life, through a subsidiary of LRG, and through an indirect subsidiary of GWL&A (Great-West Life & Annuity Company of South Carolina, or GWSC). GWSC was created in 2005 in conjunction with the establishment of a new long-term letter of credit facility to meet the Company's U.S. statutory Regulation XXX reserve requirements relating to its life reinsurance business. In 2007, the U.S. branch of Canada Life retroceded to GWSC most of its Regulation XXX business issued during 2005 and 2006.

In Barbados, the Company's reinsurance business is carried on primarily through subsidiaries of LRG.

In Ireland, the Company's reinsurance business is carried on through a subsidiary of LRG, and through a subsidiary of Canada Life (Canada Life International Re Limited).

The Company's business includes both reinsurance and retrocession business transacted directly with clients or through reinsurance brokers. As a retrocessionaire, the Company provides reinsurance to other reinsurers to allow those companies to spread their insurance risk.

The product portfolio offered by the Company includes life, annuity and property and casualty reinsurance, provided on both a proportional and non-proportional basis.

In addition to providing reinsurance products to third parties, the Company also utilizes internal reinsurance transactions between affiliated companies. These transactions are undertaken in order to better manage insurance risks relating to retention, volatility and concentration as well as to facilitate capital management for the Company and its subsidiaries and branch operations. These internal reinsurance transactions may produce benefits that are reflected in one or more of the Company's other business segments.

Market Overview

Products and Services

The Company provides protection and wealth management products that are distributed primarily through independent sales channels.

Insurance & Annuities

Market Position

U.K. and Isle of Man
- Among the top 20 life insurance companies operating in U.K.
- A leader of the group life market, with 33% share
- Second in the group income protection market with 20% share
- A top provider of offshore single premium investment product into the U.K., with 9% market share
- Among the top four insurers in payout annuities, with 8% market share
- Among the top ten in the onshore unit-linked single premium bond market

Ireland
- 5% of Irish life assurance market
- Among the top six insurers by new business market share

Germany
- Among the top two in the broker unit-linked market
- Among the top eight in the overall unit-linked market
- 1% market share in the German market

Products and Services

Wealth management
- Pensions
- Savings
- Payout annuities, including enhanced annuities

Group Insurance
- Life insurance
- Income protection (disability)
- Critical illness

Individual Insurance
- Life insurance
- Disability
- Critical illness

Distribution

U.K. and Isle of Man
- Independent financial advisors
- Employee benefit consultants

Ireland
- Independent brokers
- Direct sales force

Germany
- Independent brokers

GREAT-WEST LIFECO INC.

REINSURANCE

MARKET POSITION
- Among the top ten life reinsurers in the U.S. by assumed business
- Niche positions in property and casualty and annuity business

PRODUCTS AND SERVICES
Life
- Yearly renewable term
- Co-insurance
- Modified co-insurance

Property & Casualty
- Catastrophe retrocession

Annuity
- Fixed annuity
- Payout annuity

DISTRIBUTION
- Independent reinsurance brokers
- Direct placements

COMPETITIVE CONDITIONS

United Kingdom and Isle of Man
In the United Kingdom, the Company holds strong positions in several product-focused markets with particular strength in the payout annuity, onshore/offshore savings, and group life and income protection markets. The Company increased its market share in both group life and income protection markets and also in the single premium onshore investment bond market and remains competitive in the payout annuity market. Insurance and wealth management products are sold primarily through independent financial advisors. To become the provider of choice, the Company must maintain competitive product design and pricing, distribution compensation and service levels.

Ireland
The life insurance market in Ireland is very mature with one of the highest penetration rates in the world. The market has seen a very significant decline in new business during 2008 with the larger companies continuing to hold a significant share of the market.

The Company operates in all segments of the market, and focuses on higher margin products including pensions and single premium savings business. Canada Life is the sixth largest life insurance operation in Ireland as measured by new business market share. The Company continues to invest in product development infrastructure, distribution capability and systems which are critical to maximize ongoing sales growth and retention of in-force business.

Germany
2008 was a difficult year for the German life insurance market. The first half of the year was dominated by the introduction of the new German Insurance contract law on January 1st. As expected, sales across the industry were low during this period, as brokers retrained and familiarized themselves with the relaunched product ranges of the insurance providers. The government-sponsored Riester pensions were an exception to this trend due to an increase in the level of government subsidy. The Company has not entered this market because of low margins and high administrative burden associated with the product.

The second half of the year was dominated by the impacts of the global financial crisis. Investors were reluctant to invest in equity-based products given the market volatility. Many traditional German companies have now launched unit-linked and similar products which compete directly with Canada Life's products.

Despite the current uncertain environment, Canada Life is still regarded highly by the German broker market. Recent surveys carried out by broker organizations (Asscompact and Experten.de) rank us among the leading two Anglo-Saxon insurers operating in the German market and also among the top two providers of unit-linked products in Germany.

Reinsurance
In the United States life reinsurance market there was a significant increase in demand by direct writers for reinsurance solutions that emphasized capital relief. The availability of alternative solutions to manage their U.S. Regulation XXX reserving requirements that had been very popular in recent years was severely curtailed by the financial market turmoil. The sales and marketing strategy continues to leverage the Company's financial strength, adaptive product solutions and strong client relationships. The Company's expertise in capital effective reinsurance has generated a steady flow of sales opportunities.

The most significant annuity reinsurance opportunities for the Company in 2008 were U.K. payout annuities, where the holders of significant in-force annuity blocks continue to seek longevity risk protection and capital relief, increasingly in structures that do not involve the transfer of the associated assets.

2008 was a cycle turning year in the property catastrophe retrocession market. Signs of softening were abundant in the first half of the year with prices falling from 2006-7 levels, however insurer and reinsurer balance sheets were hit with a combination of asset impairments, a string of severe weather losses in early 2008 and major hurricanes Gustav and Ike in September. Against the backdrop of growing demand for protection, capacity from capital markets evaporated in the latter part of the year with hedge fund involvement and catastrophe bond placements falling sharply. As a result, January 2009 pricing for traditional retrocession coverage renewals improved noticeably with upward pressure on both price and attachment levels in most accounts.

2008 Developments

- Shareholder net income for the fourth quarter was $224 million, an increase of $74 million from 2007 while net income for the year was $726 million, an increase of $115 million. Included in net income for the year are asset impairment charges of $54 million after-tax.
- Insurance & Annuities sales increased by $291 million from the fourth quarter of 2007 and decreased by $1,083 million for the year.

Standard Life Transaction

On February 14, 2008, CLIRe, an indirect wholly-owned Irish reinsurance subsidiary of the Company, signed an agreement with Standard Life, a U.K. based provider of life, pension and investment products, to assume by way of indemnity reinsurance, a large block of U.K. payout annuities. The reinsurance transaction, at the date of signing, resulted in revenue premiums of $12.5 billion with corresponding increases in paid or credited to policyholders, policyholder liabilities and funds held by ceding issuers. The Standard Life transaction, while undertaken by the Company's Reinsurance division, affects the net income reported by both the Reinsurance division and the Insurance & Annuities division as a result of investment management and other services provided to CLIRe by U.K. based affiliates.

Selected consolidated financial information – Europe

	For the three months ended December 31			For the twelve months ended December 31		
	2008	2007	% Change	2008	2007	% Change
Premiums and deposits	**$ 2,723**	$ 2,805	-3%	**$ 23,114**	$ 12,941	79%
Sales – Insurance & Annuities	**1,349**	1,058	28%	**5,004**	6,087	-18%
Fee and other income	**178**	181	-2%	**648**	673	-4%
Paid or credited to policyholders	**2,472**	2,498	-1%	**18,660**	8,094	–
Net income – common shareholders	**224**	150	49%	**726**	611	19%
Total assets				**$ 44,977**	$ 36,017	25%
Segregated funds net assets				**21,854**	25,682	-15%
Total assets under administration				**$ 66,831**	$ 61,699	8%

Net income – common shareholders

	For the three months ended December 31			For the twelve months ended December 31		
	2008	2007	% Change	2008	2007	% Change
Insurance & Annuities	**$ 169**	$ 121	40%	**$ 560**	$ 485	15%
Reinsurance	**58**	30	93%	**186**	122	52%
Corporate	**(3)**	(1)	–	**(20)**	4	–
	$ 224	$ 150	49%	**$ 726**	$ 611	19%

BUSINESS UNITS – EUROPE

The paragraphs below refer to currency movement. In the fourth quarter, comparing 2008 to 2007, the euro and the US dollar strengthened against the Canadian dollar but this was partly offset by the strengthening of the Canadian dollar against the British pound. Net income was positively impacted by $2 million compared to the fourth quarter of 2007 as a result of currency movement. On a constant currency basis, net income attributable to common shareholders increased 49% over 2007.

For the full year 2008 compared to 2007 the Canadian dollar strengthened against the British pound and the US dollar, partly offset by the strengthening of the euro against the Canadian dollar. Net income was negatively impacted by $45 million compared to 2007 as a result of currency movement. On a constant currency basis, net income attributable to common shareholders increased 26% over 2007.

INSURANCE & ANNUITIES

Operating Results

	For the three months ended December 31			For the twelve months ended December 31		
	2008	2007	% Change	2008	2007	% Change
Premiums and deposits	**$ 1,769**	$ 1,446	22%	**$ 6,803**	$ 7,897	-14%
Sales	**1,349**	1,058	28%	**5,004**	6,087	-18%
Fee and other income	**168**	164	2%	**623**	649	-4%
Net income	**169**	121	40%	**560**	485	15%

Premiums and deposits

In quarter

Premiums and deposits increased by $323 million compared to the fourth quarter of 2007. The increase reflects strong growth in net premiums of payout annuities and savings products in the U.K. and Isle of Man partially offset by lower sales of savings and pension products in Ireland.

Twelve months

Premiums and deposits decreased by $1,094 million compared to 2007. The decrease reflects lower sales in the Isle of Man and Ireland, particularly in savings and pension products, and currency movement partly offset by strong growth in sales of payout annuities in the U.K.

Sales

In quarter

Sales increased by $291 million compared to the fourth quarter of 2007. The increase is primarily due to strong growth in payout annuities and savings products in the U.K. and Isle of Man partly offset by lower sales in Ireland and Germany, largely reflecting the continuing effect of financial market volatility and competitive conditions. Sales growth was also tempered by currency movement.

Twelve months

Sales decreased by $1,083 million for the full year. The decrease is primarily due to lower sales in savings and pension products in the U.K., Isle of Man, Ireland and Germany, reflecting the continuing effect of financial market volatility as well as currency movement. The decrease was tempered by strong growth of payout annuity sales in the U.K.

Fee and other income

In quarter

Fee and other income increased by $4 million compared to the fourth quarter of 2007 due to growth in the U.K. and Isle of Man and currency movement. Partially offsetting these increases was lower fee income in Ireland due to lower business levels and lower average equity market levels.

Twelve months

Fee and other income decreased by $26 million compared to 2007 due to decreases in Germany and Ireland partially offset by growth in the U.K. and Isle of Man. Fee income in Germany was higher during the first three quarters of 2007 due to fees associated with a sales surge on products that generated higher related fees up to and including the third quarter of 2007. Fee income was lower in Ireland due to lower business levels and lower average equity market levels.

Net income

In quarter

Net income attributable to common shareholders was $169 million, an increase of 40% compared to last year. The increase reflects improved mortality experience, new business and investment gains, particularly in the U.K. payout annuity business partly offset by lower results of the wealth management businesses in Ireland and the U.K. due to lower business levels largely attributable to declines in average equity market levels. Partly offsetting the income increase was a favourable settlement adjustment, relating to the payout annuity block of business acquired from Phoenix & London in 2005, which contributed to income in 2007. Strengthening of actuarial reserves were also included in the 2007 results.

Twelve months

Net income attributable to common shareholders was $560 million, an increase of $75 million from 2007. The results include asset impairment charges of $47 million after-tax and the impact of currency movement. The results reflect improved mortality and morbidity experience and new business gains, particularly in the U.K. group protection and payout annuity businesses and higher investment gains. These increases were partly offset by lower contribution from the Ireland and U.K. wealth management businesses and a favourable settlement adjustment, relating to the block of business acquired from Phoenix & London in 2005, which contributed to income in 2007. Strengthening of actuarial reserves were also included in the 2007 results.

In addition to the specific asset impairment charges, the Company increased its actuarial credit provisions during the year as a result of a deterioration in the credit environment. This included downgrades in credit ratings assigned to financial guarantors that have provided guarantees in connection with certain investments held by the Company.

OUTLOOK – INSURANCE & ANNUITIES

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding Non-GAAP Financial Measures at the beginning of this document.

The current outlook is that fee income and revenues will be reduced due to lower asset values and lower sales activity. The Europe operating unit is seeking ways to increase efficiencies and raise revenues to counter this situation.

The Company made positive strides in the development and rolling out of a European wide technology platform initiative which enhances the ability of Independent Financial Advisors (IFAs) to interact with the Company as well as investments in technology to create additional efficiencies and ease of use for Advisors, to reconfigure and to modernize information technology infrastructure across the European operations. The Company will continue to implement these initiatives in 2009.

The Company continues to look for further opportunities to capitalize on the strong market positions in its core businesses and to expand on its distribution capabilities.

United Kingdom/Isle of Man – The Company continues to grow profitably in each of its core businesses and has established itself in strong market positions in each, group insurance, payout annuities and wealth management where, both onshore and offshore, Canada Life is a top ten unit-linked single premium bond provider in the U.K. IFAs will remain our key distribution focus and we will invest in developing our links with IFAs in 2009 to reinforce our relationships with them from a strong market position.

The positive outlook described last year for the payout annuity business was maintained throughout the year with a record amount of new business written, mainly through IFAs. We launched an enhanced annuity product which has proved to be a successful addition to our annuity portfolio in its first year. We expect to further grow the enhanced annuity business in 2009. The outlook for payout annuities generally in 2009 is more mixed with market volatility of late pointing to greater uncertainty going forward.

The Company's strategy in the single premium investment market continues to focus on IFAs. Despite a difficult year in 2008 for all investments Canada Life has generally maintained its share of the market and expects to maintain its presence in both the onshore and offshore segments. When investor confidence does return, Canada Life expects to be well placed to compete in the market place.

The overall outlook for the group protection businesses continues to be positive. As well as being a leading player in Group Life and Income Protection, the Company is the market leader in its technology platform offering to IFAs for small sized schemes. As the recession in the U.K. takes hold in 2009, the Company expects employers generally to suffer in the economic downturn as a result of which the group operations are likely to experience a more difficult period in 2009.

Overall, the progress we have made in the last few years establishing strong product market positions in our chosen segments, using an efficient cost base and prudent financial management, will stand the Company in good stead in the immediate future. The Company is well placed for the difficulties in the markets in the short term and the challenges of continuing to grow a profitable business going forward.

Ireland – In Ireland, the 'Celtic Tiger' economy, which had fuelled high rates of economic growth for the previous decade, slowed abruptly in 2008 with the Irish economy officially moving into recession. This dramatic slow down in economic activity resulting from the international financial crisis had a severe impact on the property market in Ireland. The Irish Stock Exchange fell in value by 66% in 2008, significantly underperforming other markets.

Current market conditions do not indicate there will be an improvement in the Irish life insurance market for 2009. Customers remain cautious, and reluctant to invest in the current market. The Company will continue to leverage its strong presence to grow in the pensions market in 2009. The emphasis in 2009 will be on strengthening our administration and product support services to target segments of the independent intermediary market.

Germany – Although domestic demand was strong in 2008, Germany, as one of the world's largest exporters, was not immune to the international economic crisis. The country slipped into recession in the third quarter of 2008 and most forecasts do not project a return to growth until 2010. Despite the current economic conditions, the fundamentals for growth in the German life insurance sector remain positive. Relatively low levels of insurance penetration combined with reductions in state pension provision and changes to the taxation of direct investments, create significant growth potential for life insurance companies.

Canada Life plans to launch new innovative products in 2009, aiming to benefit from the increasing interest in variable annuity and single premium savings products. We also expect to use these products to broaden our distribution capability through relationships with private banks and investment fund providers. With the major reforms of the last few years apparently completed, we also hope to benefit from a more stable legislative and taxation environment.

REINSURANCE

Operating Results

	For the three months ended December 31			For the twelve months ended December 31		
	2008	2007	% Change	2008	2007	% Change
Premiums and deposits	$ **954**	$ 1,359	-30%	$ **16,311**	$ 5,044	–
Fee and other income	**10**	17	-41%	**25**	24	4%
Net income	**58**	30	93%	**186**	122	52%

Premiums and deposits

In quarter

Premiums and deposits for the Reinsurance business were $954 million, a decrease of $405 million from the fourth quarter of 2007. The decrease is due to the commutation of a structured life reinsurance contract in 2007 partially offset by new business and favourable currency movement.

Twelve months

Premiums and deposits increased by $11,267 million from 2007. The increase is primarily driven by assumed business from the Standard Life transaction, new business and commutation of structured life contracts in 2008 partly offset by unfavourable currency movement. The 2007 premium results also included the commutation of structured life contracts.

Fee and other income

In quarter

Fee and other income for the quarter was $10 million, a decrease of $7 million. The decrease mostly reflects additional fees earned in 2007 on reinsurance treaties and a decrease in fees earned in connection with certain reinsurance transactions with Lifeco subsidiary companies partly offset by favourable currency movement.

Twelve months

Fee and other income for the year was $25 million, slightly higher than the $24 million earned in the prior year.

Net income

In quarter

Net income was $58 million, an increase of $28 million from the fourth quarter of 2007. The increase reflects the contribution from the Standard Life transaction, higher renewal profits, investment, commutation gains and favourable currency movement, partly offset by strengthening of actuarial liabilities and provisions.

Twelve months

Net income for the twelve month period was $186 million, an increase of $64 million from the prior year. The results include asset impairment charges of $7 million. The increase in income is due to contribution from the Standard Life transaction, higher renewal profits, investment and commutation gains and favourable morbidity experience partially offset by unfavourable lapse experience and strengthening of actuarial liabilities and provisions.

Outlook – Reinsurance

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding Non-GAAP Financial Measures at the beginning of this document.

The U.S. life reinsurance industry is expected to rebound in 2009 after several years of declining sales levels. Reduced availability of alternative solutions should result in higher cession rates to reinsurers. The Company expects continued growth in this line, building on the complementary strengths of Canada Life and LRG in adaptive product solutions and strong client relationships.

Pricing in the property catastrophe retrocession market is expected to hold or strengthen further in 2009, given pressure on asset values and reduced capital market capacity. Technical pricing remains above historic norms given the new reality of increased modeled loss exposures and more rigorous rating agency stress testing of capital positions.

EUROPE CORPORATE

The Corporate account includes financing charges, the impact of certain non-continuing items as well as the results for the non-core international businesses.

Net income

In quarter

Net income for the quarter was a charge of $3 million, compared to a charge of $1 million for the prior year. The 2007 results included gains related to the divestiture of certain international operations.

Twelve months

Net income for 2008 was a charge of $20 million compared to net income of $4 million in the same period of 2007. The charge in 2008 primarily relates to financing charges of $13 million and two non-recurring charges. The 2007 results also included financing charges of $13 million which were offset by one-time gains that contributed $17 million to net income.

Lifeco Corporate Operating Results

The Lifeco Corporate segment includes operating results for activities of Lifeco that are not associated with the major business units of the Company.

Net income

In quarter

Corporate net income was a charge of $9 million in 2008 compared to nil in 2007, due to unfavourable currency movement on certain foreign currency liabilities.

Twelve months

Corporate net income was a charge of $20 million in 2008 compared to nil in 2007, for the same reason as the in quarter period.

Other Information

Selected Annual Information (in $ millions, except per share amounts)

	Years ended December 31		
	2008	2007	2006
Total revenue (1)	$ 33,932	$ 25,923	$ 25,482
Net income – common shareholders			
Net income – continuing operations – adjusted	$ 2,018	$ 1,950	$ 1,684
Adjustments after tax	(665)	(97)	–
Net income – continuing operations	704	1,853	1,684
Net income	1,396	2,056	1,875
Net income per common share			
Basic – adjusted – continuing operations	$ 2.255	$ 2.185	$ 1.889
Basic – continuing operations	0.787	2.076	1.889
Diluted – continuing operations	0.783	2.061	1.876
Basic – adjusted	2.303	2.413	2.104
Basic	1.560	2.304	2.104
Diluted	1.553	2.287	2.089
Total assets (1)			
General fund assets	$ 130,074	$ 118,194	$ 120,431
Segregated funds net assets	77,748	89,181	90,146
Proprietary mutual funds and institutional net assets (2)	131,122	179,162	1,907
Total assets under administration	338,944	386,537	212,484
Total general fund liabilities (1)	$ 113,104	$ 103,439	$ 105,668
Dividends paid per share			
Series D First Preferred	$ 1.1750	$ 1.1750	$ 1.1750
Series E First Preferred	1.2000	1.2000	1.2000
Series F First Preferred	1.4750	1.4750	1.4750
Series G First Preferred	1.3000	1.3000	1.3000
Series H First Preferred	1.21252	1.21252	1.21252
Series I First Preferred	1.1250	1.1250	0.80599
Series J First Preferred	–	–	–
Common	1.200	1.060	0.9275

(1) Continuing operations
(2) Excludes Putnam Prime Money Market Fund

Quarterly Financial Information

		Total revenue (1)	Common Shareholders: Net income Total	Net income per share Basic	Net income per share Diluted	Net income – adjusted Total	Net income – adjusted per share Basic	Net income – adjusted per share Diluted	Net income – adjusted continuing operations Total	Net income – adjusted continuing operations per share Basic	Net income – adjusted continuing operations per share Diluted
2008	**Fourth quarter**	**$ 6,580**	**$ (907)**	**$ (1.011)**	**$ (1.009)**	**$ 525**	**$ 0.586**	**$ 0.585**	**$ 525**	**$ 0.586**	**$ 0.585**
	Third quarter	3,971	436	0.487	0.485	436	0.487	0.485	436	0.487	0.485
	Second quarter	5,382	1,213	1.356	1.350	564	0.630	0.627	564	0.630	0.627
	First quarter	17,999	654	0.732	0.728	536	0.600	0.596	493	0.552	0.548
2007	Fourth quarter	8,750	537	0.601	0.597	537	0.601	0.597	494	0.553	0.549
	Third quarter	6,199	461	0.516	0.513	558	0.625	0.621	508	0.569	0.565
	Second quarter	4,102	544	0.610	0.606	544	0.610	0.606	490	0.549	0.546
	First quarter	6,872	514	0.576	0.572	514	0.576	0.572	458	0.513	0.510

(1) Continuing operations

(2) Adjusted net income is presented as a non-GAAP financial measure of earnings performance before certain non-recurring adjustments. Refer to "Non-GAAP Financial Measures" section of this report.

Adjustments to net income – common shareholders:		Total	per share Basic	per share Diluted
2008 Fourth quarter	Goodwill and intangible assets impairment	$ (1,353)	$ (1.508)	$ (1.505)
	Valuation allowance, income tax	(34)	(0.038)	(0.038)
	Restructuring costs	(45)	(0.051)	(0.051)
Second quarter	Gain realized from the sale of GWL&A health care business	649	0.726	0.723
First quarter	Gain realized in connection with the termination of a long standing assumption reinsurance agreement and reserve strengthening of GWL&A's continuing operations	118	0.132	0.132
2007 Third quarter	After-tax provision for certain Canadian retirement plans	(97)	(0.109)	(0.108)

Summary of Quarterly Results

Including discontinued operations, Lifeco's net income attributable to common shareholders was a charge of $907 million for the fourth quarter of 2008 compared to $537 million reported a year ago, a decrease of $1,444 million. On a per share basis, this represents a charge of $1.011 per common share ($1.009 diluted) for the fourth quarter of 2008 compared to income of $0.601 per common share ($0.597 diluted) a year ago.

Total revenue for the fourth quarter of 2008 was $6,580 million and was comprised of premium income of $4,782 million, regular net investment income of $1,423 million, change in fair value of held for trading assets of $(368) million, and fee and other income of $743 million. Total revenue for the fourth quarter of 2007 was $8,750 million, comprised of premium income of $5,764 million, regular net investment income of $1,304 million, change in fair value of held for trading assets of $821 million and fee and other income of $861 million.

Disclosure Controls and Procedures

Based on their evaluations as of December 31, 2008, the President and Chief Executive Officer, and the Executive Vice-President and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective at the reasonable assurance level in ensuring that information relating to the Company which is required to be disclosed in reports filed under provincial and territorial securities legislation is: (a) recorded, processed, summarized and reported within the time periods specified in the provincial and territorial securities legislation, and (b) accumulated and communicated to the Company's senior management, including the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Internal Control Over Financial Reporting

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting for Lifeco. All internal control systems have inherent limitations and may become inadequate because of changes in conditions. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management, under the supervision of the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer, has evaluated the effectiveness of Lifeco's internal control over financial reporting based on the *Internal Control – Integrated Framework* (COSO Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission.

As at December 31, 2008, management assessed the effectiveness of the Company's internal control over financial reporting and concluded that such internal control over financial reporting is effective and that there are no material weaknesses in the Company's internal control over financial reporting that have been identified by management.

There have been no changes in the Company's internal control over financial reporting during the year ended December 31, 2008, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Transactions with Related Parties

In the normal course of business, Great-West Life provided insurance benefits to other companies within the Power Financial Corporation, Lifeco's parent, group of companies. In all cases, transactions were at market terms and conditions.

During the year, Great-West Life provided to and received from IGM Financial Inc. and its subsidiaries (IGM), a member of the Power Financial Corporation group of companies, certain administrative services. Great-West Life also provided life insurance, annuity and disability insurance products under a distribution agreement with IGM. London Life provided distribution services to IGM. All transactions were provided on terms and conditions at least as favourable as market terms and conditions.

At December 31, 2008 the Company held $36 million ($13 million in 2007) of debentures issued by IGM.

During 2008, Great-West Life, London Life, and segregated funds maintained by London Life purchased residential mortgages of $144 million from IGM ($154 million in 2007). Great-West Life, London Life and Canada Life sold residential mortgages of $3 million ($4 million in 2007) to segregated funds maintained by Great-West Life and $66 million ($98 million in 2007) to segregated funds maintained by London Life. All transactions were at market terms and conditions.

Translation of Foreign Currency

Through its operating subsidiaries, Lifeco conducts business in multiple currencies. The four primary currencies are the Canadian dollar, the United States dollar, the British pound, and the euro. Throughout this document, foreign currency assets and liabilities are translated into Canadian dollars at the market rate at the end of the financial period. All income and expense items are translated at an average rate for the period. The rates employed are:

Translation of foreign currency

Period ended	Dec. 31 2008	Sept. 30 2008	June 30 2008	Mar. 31 2008	Dec. 31 2007	Sept. 30 2007	June 30 2007	Mar. 31 2007
United States dollar								
Balance sheet	$ 1.22	$ 1.06	$ 1.02	$ 1.03	$ 0.99	$ 1.00	$ 1.06	$ 1.15
Income and expenses	$ 1.21	$ 1.04	$ 1.01	$ 1.00	$ 0.98	$ 1.05	$ 1.10	$ 1.17
British pound								
Balance sheet	$ 1.79	$ 1.89	$ 2.03	$ 2.04	$ 1.96	$ 2.03	$ 2.13	$ 2.27
Income and expenses	$ 1.90	$ 1.97	$ 1.99	$ 1.99	$ 2.01	$ 2.11	$ 2.18	$ 2.29
Euro								
Balance sheet	$ 1.70	$ 1.49	$ 1.60	$ 1.62	$ 1.44	$ 1.42	$ 1.44	$ 1.54
Income and expenses	$ 1.60	$ 1.56	$ 1.58	$ 1.50	$ 1.42	$ 1.44	$ 1.48	$ 1.54

Segregated and Mutual Funds Deposits and Self-funded Premium Equivalents (ASO Contracts)

The financial statements of a life insurance company do not include the assets, liabilities, deposits and withdrawals of segregated funds, mutual funds or the claims payments related to administrative services only (ASO) group health contracts. However, the Company does earn fee and other income related to these contracts. Segregated funds, mutual funds and ASO contracts are an important aspect of the overall business of the Company and should be considered when comparing volumes, size and trends.

Additional information relating to Lifeco, including Lifeco's most recent financial statements, CEO/CFO certification and Annual Information Form are available at **www.sedar.com**.

FINANCIAL REPORTING RESPONSIBILITY

The consolidated financial statements are the responsibility of management and are prepared in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in the annual report is consistent with that in the consolidated financial statements. The consolidated financial statements necessarily include amounts that are based on management's best estimates. These estimates are based on careful judgments and have been properly reflected in the consolidated financial statements. In the opinion of management, the accounting practices utilized are appropriate in the circumstances and the consolidated financial statements present fairly, in all material respects, the financial position of the Company and the results of its operations and its cash flows in accordance with Canadian generally accepted accounting principles.

In carrying out its responsibilities, management maintains appropriate internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements were approved by the Board of Directors, which has oversight responsibilities with respect to financial reporting. The Board of Directors carries out this responsibility principally through the Audit Committee, which is comprised of independent directors. The Audit Committee is charged with, among other things, the responsibility to:

- Review the interim and annual consolidated financial statements and report thereon to the Board of Directors.
- Review internal control procedures.
- Review the independence of the external auditors and the terms of their engagement and recommend the appointment and compensation of the external auditors to the Board of Directors.
- Review other audit, accounting and financial reporting matters as required.

In carrying out the above responsibilities, this Committee meets regularly with management, and with both the Company's external and internal auditors to review their respective audit plans and to review their audit findings. The Committee is readily accessible to the external and internal auditors.

The Board of Directors of each of The Great-West Life Assurance Company and Great-West Life & Annuity Insurance Company, appoints an Actuary who is a Fellow of the Canadian Institute of Actuaries. The Actuary:

- Ensures that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations and directives.
- Provides an opinion regarding the appropriateness of the policy liabilities at the balance sheet date to meet all policyholder obligations. Examination of supporting data for accuracy and completeness and analysis of assets for their ability to support the policy liabilities are important elements of the work required to form this opinion.

Deloitte & Touche LLP Chartered Accountants, as the Company's external auditors, have audited the consolidated financial statements. The Auditors' Report to the Shareholders and Directors is presented following the consolidated financial statements. Their opinion is based upon an examination conducted in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary in order to obtain reasonable assurance that the consolidated financial statements present fairly, in all material respects, the financial position of the Company and the results of its operations and its cash flows in accordance with Canadian generally accepted accounting principles.

D. Allen Loney
President and
Chief Executive Officer

William W. Lovatt
Executive Vice-President and
Chief Financial Officer

February 12, 2009

GREAT-WEST LIFECO INC.

SUMMARIES OF CONSOLIDATED OPERATIONS

(in $ millions except per share amounts)

For the years ended December 31	2008	2007
Income		
Premium income	$ 30,007	$ 18,753
Net investment income (note 4)		
Regular net investment income	5,962	5,565
Changes in fair value on held for trading assets	(5,161)	(1,098)
Total net investment income	801	4,467
Fee and other income	3,124	2,703
	33,932	25,923
Benefits and expenses		
Policyholder benefits	16,784	16,186
Policyholder dividends and experience refunds	1,348	1,137
Change in actuarial liabilities	8,642	1,799
Total paid or credited to policyholders	26,774	19,122
Commissions	1,353	1,366
Operating expenses	2,622	2,260
Premium taxes	223	225
Financing charges (note 10)	296	269
Amortization of finite life intangible assets	41	32
Restructuring costs (note 3)	70	–
Intangible and goodwill impairment (note 7)	2,178	–
Net income from continuing operations before income taxes	375	2,649
Income taxes – current (note 22)	334	696
– future (note 22)	(612)	(114)
Net income from continuing operations before non-controlling interests	653	2,067
Non-controlling interests (note 14)	(108)	159
Net income from continuing operations	761	1,908
Net income from discontinued operations (note 2)	692	203
Net income	1,453	2,111
Perpetual preferred share dividends	57	55
Net income – common shareholders	$ 1,396	$ 2,056
Earnings per common share (note 19)		
Basic	$ 1.560	$ 2.304
Diluted	$ 1.553	$ 2.287

CONSOLIDATED BALANCE SHEETS

(in $ millions)

December 31	2008	2007
Assets		
Bonds (note 4)	$ 66,554	$ 65,069
Mortgage loans (note 4)	17,444	15,869
Stocks (note 4)	5,394	6,543
Real estate (note 4)	3,188	2,547
Loans to policyholders	7,622	6,317
Cash and cash equivalents	2,850	3,650
Funds held by ceding insurers	11,447	1,512
Assets of operations held for sale (note 2)	–	697
Goodwill (note 7)	5,425	6,295
Intangible assets (note 7)	3,372	3,917
Other assets (note 8)	6,778	5,778
Total assets	$ 130,074	$ 118,194
Liabilities		
Policy liabilities		
Actuarial liabilities (note 9)	$ 97,895	$ 87,487
Provision for claims	1,466	1,315
Provision for policyholder dividends	630	600
Provision for experience rating refunds	310	310
Policyholder funds	2,326	2,160
	102,627	91,872
Debentures and other debt instruments (note 11)	3,821	5,241
Funds held under reinsurance contracts	192	164
Other liabilities (note 12)	5,969	5,211
Liabilities of operations for sale (note 2)	–	428
Repurchase agreements	334	344
Deferred net realized gains	161	179
	113,104	103,439
Preferred shares (note 15)	752	786
Capital trust securities and debentures (note 13)	658	639
Non-controlling interests (note 14)		
Participating account surplus in subsidiaries	2,012	2,103
Preferred shares issued by subsidiaries	157	157
Perpetual preferred shares issued by subsidiaries	150	152
Non-controlling interests in capital stock and surplus	13	10
Share capital and surplus		
Share capital (note 15)		
Perpetual preferred shares	1,329	1,099
Common shares	5,736	4,709
Accumulated surplus	6,906	6,599
Accumulated other comprehensive income (loss)	(787)	(1,533)
Contributed surplus	44	34
	13,228	10,908
Total liabilities, share capital and surplus	$ 130,074	$ 118,194

Approved by the Board:

Director Director

GREAT-WEST LIFECO INC.

CONSOLIDATED STATEMENTS OF SURPLUS

(in $ millions)

For the years ended December 31	2008	2007
Accumulated surplus		
Balance, beginning of year	$ 6,599	$ 5,858
Change in accounting policy (note 1(a))	–	(368)
Net income	1,453	2,111
Share issue costs (note 15)	(21)	–
Repatriation of Canada Life seed capital from participating policyholder account (note 14)	5	–
Dividends to shareholders		
Perpetual preferred shareholders	(57)	(55)
Common shareholders	(1,073)	(947)
Balance, end of year	$ 6,906	$ 6,599
Accumulated other comprehensive income (loss), net of income taxes (note 20)		
Balance, beginning of year	$ (1,533)	$ (547)
Change in accounting policy (note 1(a))	–	257
Other comprehensive income (loss)	746	(1,243)
Balance, end of year	$ (787)	$ (1,533)
Contributed surplus		
Balance, beginning of year	$ 34	$ 28
Stock option expense		
Current year expense (note 17)	11	8
Exercised	(1)	(2)
Balance, end of year	$ 44	$ 34

SUMMARIES OF CONSOLIDATED COMPREHENSIVE INCOME

(in $ millions)

For the years ended December 31	2008	2007
Net income	$ 1,453	$ 2,111
Other comprehensive income (loss), net of income taxes		
Unrealized foreign exchange gains (losses) on translation of foreign operations	1,196	(1,210)
Unrealized gains (losses) on available-for-sale assets	(171)	(52)
Realized (gains) losses on available-for-sale assets	(39)	(45)
Unrealized gains (losses) on cash flow hedges	(209)	(23)
Realized (gains) losses on cash flow hedges	(1)	36
Non-controlling interests	(30)	51
	746	(1,243)
Comprehensive income	$ 2,199	$ 868

Income tax (expense) benefit included in other comprehensive income

For the years ended December 31	2008	2007
Unrealized foreign exchange gains (losses) on translation of foreign operations	$ (1)	$ –
Unrealized gains (losses) on available-for-sale assets	87	15
Realized (gains) losses on available-for-sale assets	14	20
Unrealized gains (losses) on cash flow hedges	113	13
Realized (gains) losses on cash flow hedges	1	(19)
Non-controlling interests	(2)	(5)
	$ 212	$ 24

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in $ millions)

For the years ended December 31	2008	2007
Operations		
Net income	$ 1,453	$ 2,111
Adjustments:		
Change in policy liabilities	(3,249)	57
Change in funds held by ceding insurers	1,306	658
Change in funds held under reinsurance contracts	50	65
Change in current income taxes payable	(397)	(129)
Future income tax expense	(612)	(114)
Gain on disposal of business, after-tax (note 2)	(649)	–
Changes in fair value of financial instruments	5,128	1,058
Intangible and goodwill impairment (note 7)	2,178	–
Other	(1,345)	25
Cash flows from operations	3,863	3,731
Financing activities		
Issue of common shares	1,027	33
Issue of preferred shares	230	–
Partial repayment of five year term facility in subsidiary	(198)	–
Redemption of preferred shares	–	(1)
Redemption of preferred shares in subsidiary	–	(52)
Issue of subordinated debentures in subsidiary	500	1,000
Issue of five year term facility in subsidiary	–	495
Drawdown on credit facility	–	3,007
Repayments on credit facility	(1,886)	(1,055)
Increase in line of credit in subsidiary	118	–
Repayment of debentures and other debt instruments	(194)	(3)
Share issue costs	(21)	–
Dividends paid	(1,130)	(1,002)
	(1,554)	2,422
Investment activities		
Bond sales and maturities	17,669	24,436
Mortgage loan repayments	1,952	1,833
Stock sales	2,201	2,459
Real estate sales	84	169
Change in loans to policyholders	(329)	(265)
Change in repurchase agreements	33	(686)
Acquisition of intangible assets (note 7)	(20)	–
Acquisition of business (note 2)	–	(4,155)
Disposal of business (note 2)	1,375	6
Investment in bonds	(19,300)	(21,848)
Investment in mortgage loans	(3,374)	(3,225)
Investment in stocks	(2,707)	(3,185)
Investment in real estate	(876)	(740)
	(3,292)	(5,201)
Effect of changes in exchange rates on cash and cash equivalents	157	(359)
Increase (decrease) in cash and cash equivalents	(826)	593
Cash and cash equivalents from continuing and discontinued operations, beginning of year	3,676	3,083
Cash and cash equivalents from continuing and discontinued operations, end of year	2,850	3,676
Cash and cash equivalents from discontinued operations, end of year	–	(26)
Cash and cash equivalents from continuing operations, end of year	$ 2,850	$ 3,650
Supplementary cash flow information		
Income taxes paid	$ 1,136	$ 852
Interest paid	$ 301	$ 276

(in $ millions except per share amounts)

1. Basis of Presentation and Summary of Accounting Policies

The consolidated financial statements of Great-West Lifeco Inc. (Lifeco or the Company) have been prepared in accordance with Canadian generally accepted accounting principles and include the consolidated accounts of its major operating subsidiary companies, The Great-West Life Assurance Company (Great-West Life), London Life Insurance Company (London Life), The Canada Life Assurance Company (Canada Life), Great-West Life & Annuity Insurance Company (GWL&A) and Putnam Investments, LLC (Putnam LLC).

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. The valuation of actuarial liabilities, certain financial assets and liabilities, goodwill and indefinite life intangible assets, income taxes and pension plans and other post retirement benefits are the most significant components of the Company's financial statements subject to management estimates.

The year to date results of the Company reflect management's judgments regarding the impact of prevailing global credit, equity and foreign exchange market conditions. Financial instrument carrying values currently reflect the illiquidity of the markets and the liquidity premiums embedded in the market pricing methods the Company relies upon.

The estimation of actuarial liabilities relies upon investment credit ratings. The Company's practice is to use third party independent credit ratings where available. Credit rating changes may lag developments in the current environment. Subsequent credit rating adjustments will impact actuarial liabilities.

In addition to the Company's direct investments in certain financial institutions, the Company has contractual business relationships with these financial institutions. Given the current uncertainty associated with these entities, normal business conditions do not prevail and the Company's contractual business relationships may be impacted.

Given the uncertainty surrounding the continued volatility in these markets, and the general lack of liquidity in financial markets, the actual financial results could differ from those estimates.

The significant accounting policies are as follows:

(a) Changes in Accounting Policy

Capital Disclosures

Effective January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535, *Capital Disclosures*. The section establishes standards for disclosing information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. The new requirements are for disclosure only and did not impact the financial results of the Company.

Financial Instrument Disclosure and Presentation

Effective January 1, 2008, the Company adopted the CICA Handbook Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*. These sections replace existing Section 3861, *Financial Instruments – Disclosure and Presentation*. Presentation standards are carried forward unchanged. Disclosure standards are enhanced and expanded to complement the changes in accounting policy adopted in accordance with Section 3855, *Financial Instruments – Recognition and Measurement* during 2007.

Financial Instruments Recognition and Measurement

On January 1, 2007, the Company adopted the following new accounting standards issued by the CICA: Handbook Section 1530, *Comprehensive Income*; Section 3855, *Financial Instruments – Recognition and Measurement*; Section 3865, *Hedges*; and Section 4211, *Life Insurance Enterprises*. The Company also adopted The Office of the Superintendent of Financial Institutions Canada Guideline D-10, *Accounting for Financial Instruments Designated as "Held for Trading" (Fair Value Option)* (OSFI D-10), which provides additional guidance to certain federally regulated financial institutions, including life insurance companies.

Under the new guidance, all financial assets must be classified as available for sale, held for trading, held to maturity, or loans and receivables. Derivatives are classified as held for trading or other if it is a designated and effective hedging instrument. All financial liabilities must be classified as held for trading or other. All financial instruments classified as available for sale or held for trading are recognized at fair value on the Consolidated Balance Sheets while financial instruments classified as loans and receivables or other will continue to be measured at amortized cost using the effective interest rate method. The standards allow the Company to designate certain financial instruments, on initial recognition, as held for trading. This option has been limited by the requirements of OSFI D-10.

Changes in the fair value of financial instruments classified as held for trading are reported in net income. Unrealized gains or losses on financial instruments classified as available for sale are reported in other comprehensive income (OCI) and will be reported in net income when they are realized by the Company.

The Company is required to present a new statement of comprehensive income and its components, as well as the components of accumulated other comprehensive income (AOCI), in its financial statements. Comprehensive income includes both net income and OCI. Major components of OCI include changes in unrealized gains and losses on financial assets classified as available for sale, changes in fair value on certain derivative instruments and currency translation gains and losses on self-sustaining foreign subsidiary operations.

Unless otherwise stated below, financial assets and liabilities will remain on the Consolidated Balance Sheets at amortized cost.

Certain investments, primarily investments normally actively traded in a public market, and certain financial liabilities are measured at their fair value. Investments backing actuarial liabilities, investments backing participating account surplus in Canada Life, and preferred shares classified as liabilities are designated as held for trading using the fair value option. Changes in the fair value of these investments flow through net income. This impact is largely offset by corresponding changes in the actuarial liabilities which also flow through net income. Investments backing shareholder capital and surplus, with the exception of the investments backing participating account surplus in Canada Life, are classified as available for sale. Unrealized gains and losses on these investments flow through OCI until they are realized. Certain investment portfolios are classified as held for trading as a reflection of their underlying nature. Changes in the fair value of these investments flow through net income. There has been no change to the Company's method of accounting for real estate or loans.

Derivative instruments, previously off-balance sheet, are recognized at their fair value on the Consolidated Balance Sheets. Changes in the fair value of derivatives are recognized in net income except for derivatives designated as effective cash flow hedges.

Derivatives embedded in financial instruments, or other contracts, which are not closely related to the host financial instrument, or contract, must be bifurcated and recognized independently. The Company chose a transition date of January 1, 2003 for embedded derivatives and therefore will only be required to account separately for those embedded derivatives in hybrid instruments issued, acquired or substantially modified after that date. The change in accounting policy related to embedded derivatives did not have a significant impact on the financial statements of the Company.

Three types of hedging relationships are permitted under the new guidance: fair value hedges, cash flow hedges, and hedges of net investments in self-sustaining foreign operations. Changes in fair value hedges are recognized in net income. The effective portion of cash flow hedges and hedges of net investments in self-sustaining foreign operations is recorded in OCI until the variability in cash flows being hedged is recognized in net income.

Trade-date accounting will be used to account for all purchase or sale of investments traded on a public market and derivative instruments. Settlement-date accounting will be used to account for all purchase or sale of investments not traded on a public market.

Transaction costs for financial assets and liabilities classified or designated as held for trading will be recognized immediately in net income. Transaction costs for financial assets classified as available for sale or loans and receivables will be added to the value of the instrument at acquisition and be taken into net income using the effective interest rate method. Transaction costs for financial liabilities classified as other than held for trading will be recognized immediately in net income.

On January 1, 2007, transition adjustments were made to certain existing financial instruments to adjust their carrying value to market, to recognize derivative financial instruments on the balance sheet, to eliminate the recognition of deferred realized gains with corresponding adjustments to actuarial liabilities and opening accumulated surplus. The transition adjustments resulted in an increase in total assets of $1,478, an increase in policy and other liabilities of $1,460, an increase in non-controlling interest of $129, an increase in AOCI of $257 and a decrease in accumulated surplus of $368.

(b) Portfolio Investments

Portfolio investments are classified as held for trading, available for sale, held to maturity, loans and receivables or as non-financial instruments based on management's intention or characteristics of the investment. The Company currently has not classified any investments as held to maturity.

Investments in bonds and stocks normally actively traded on a public market are designated or classified as either held for trading or classified as available for sale on a trade date basis, based on management's intention. Held for trading investments are recognized at fair value on the Consolidated Balance Sheets with realized and unrealized gains and losses reported in the Summaries of Consolidated Operations. Available for sale investments are recognized at fair value on the Consolidated Balance Sheets with unrealized gains and losses recorded in OCI. Realized gains and losses are reclassified from OCI and recorded in the Summaries of Consolidated Operations when the available for sale investment is sold. Interest income earned on both held for trading and available for sale bonds is recorded as investment income earned in the Summaries of Consolidated Operations.

1. Basis of Presentation and Summary of Accounting Policies (cont'd)

Investments in equity instruments where a market value cannot be measured reliably are classified as available for sale and carried at cost. Investments in stocks for which the Company exerts significant influence over but does not control are accounted for using the equity method of accounting (see note 4).

Investments in mortgages and bonds not normally actively traded on a public market are classified as loans and receivables and are carried at amortized cost net of any allowance for credit losses. Interest income earned and realized gains and losses on the sale of investments classified as loans and receivables are recorded in the Summaries of Consolidated Operations and included in investment income earned.

Investments in real estate are carried at cost net of write-downs and allowances for loss, plus a moving average market value adjustment of $213 ($210 in 2007) on the Consolidated Balance Sheets. The carrying value is adjusted towards market value at a rate of 3% per quarter. Net realized gains and losses are included in Deferred Net Realized Gains on the Consolidated Balance Sheets and are deferred and amortized to income at a rate of 3% per quarter on a declining balance basis.

Fair Value Measurement

Financial instrument carrying values necessarily reflect the prevailing market liquidity and the liquidity premiums embedded in the market pricing methods the Company relies upon.

Fair values for bonds classified as held for trading or available for sale are determined using quoted market prices. Where prices are not quoted in a normally active market, fair values are determined by valuation models primarily using observable market data inputs. Market values for bonds and mortgages classified as loans and receivables are determined by discounting expected future cash flows using current market rates.

Fair values for public stocks are generally determined by the last bid price for the security from the exchange where it is principally traded. Fair values for stocks for which there is no active market are determined by discounting expected future cash flows. Where market value cannot be measured reliably, fair value is estimated to be equal to cost. Market values for real estate are determined using independent appraisal services and include management adjustments for material changes in property cash flows, capital expenditures or general market conditions in the interim period between appraisals.

Impairment

Investments are reviewed regularly on an individual basis to determine impairment status. The Company considers various factors in the impairment evaluation process, including, but not limited to, the financial condition of the issuer, specific adverse conditions affecting an industry or region, decline in fair value not related to interest rates, bankruptcy or defaults and delinquency in payments of interest or principal. Investments are deemed to have an other than temporary impairment when there is no longer reasonable assurance of timely collection of the full amount of the principal and interest due or the Company does not have the intent to hold the investment until the value has recovered. The market value of an investment is not a definitive indicator of impairment, as it may be significantly influenced by other factors including the remaining term to maturity and liquidity of the asset. However market price must be taken into consideration when evaluating other than temporary impairment.

For impaired mortgages and bonds classified as loans and receivables, provisions are established or write-offs made to adjust the carrying value to the net realizable amount. Wherever possible the fair value of collateral underlying the loans or observable market price is used to establish net realizable value. For impaired available for sale loans, recorded at fair value, the accumulated loss recorded in AOCI is reclassified to net investment income. Once an impairment loss on an available for sale asset is recorded in income it is not reversed. All gains and losses on bonds classified or designated as held for trading are already recorded in income. As well, when determined to be impaired, interest is no longer accrued and previous interest accruals are reversed.

(c) Transaction Costs

Transaction costs are expensed as incurred for financial instruments classified or designated as held for trading. Transaction costs for financial assets classified as available for sale or loans and receivables are added to the value of the instrument at acquisition and taken into net income using the effective interest rate method. Transaction costs for financial liabilities classified as other than held for trading are recognized immediately in net income.

(d) Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash, current operating accounts, overnight bank and term deposits with original maturities of three months or less, and fixed-income securities with an original term to maturity of three months or less. Net payments in transit and overdraft bank balances are included in other liabilities. The carrying value of cash and cash equivalents approximates their fair value.

(e) Trading Account Assets

Trading account assets consist of investments in Putnam sponsored funds, which are carried at fair value based on the net asset value. Investments in these assets are included in other assets on the Consolidated Balance Sheets with realized and unrealized gains and losses reported in the Summaries of Consolidated Operations.

(f) Financial Liabilities

Financial liabilities, other than actuarial liabilities and certain preferred shares, are classified as other liabilities. Other liabilities are initially recorded on the Consolidated Balance Sheets at fair value and subsequently carried at amortized cost using the effective interest rate method with amortization expense recorded in the Summaries of Consolidated Operations. The Company has designated outstanding Preferred Shares Series D and Series E as held for trading in the Consolidated Balance Sheets with changes in fair value reported in the Summaries of Consolidated Operations.

(g) Derivative Financial Instruments

The Company uses derivative products as risk management instruments to hedge or manage asset, liability and capital positions, including revenues. The Company's policy guidelines prohibit the use of derivative instruments for speculative trading purposes.

Derivative financial instruments used by the Company are summarized in note 23, which includes disclosure of the maximum credit risk, future credit exposure, credit risk equivalent and risk weighted equivalent as prescribed by OSFI.

All derivatives including those that are embedded in financial and non-financial contracts that are not closely related to the host contracts are recorded at fair value on the Consolidated Balance Sheets in other assets and other liabilities (notes 8 and 12). The method of recognizing unrealized and realized fair value gains and losses depends on whether the derivatives are designated as hedging instruments. For derivatives that are not designated as hedging instruments, unrealized and realized gains and losses are recorded in net investment income on the Summaries of Consolidated Operations. For derivatives designated as hedging instruments, unrealized and realized gains and losses are recognized according to the nature of the hedged item.

To qualify for hedge accounting, the relationship between the hedged item and the hedging instrument must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. If these conditions are not met, then the relationship does not qualify for hedge accounting treatment and both the hedged item and the hedging instrument are reported independently as if there was no hedging relationship.

Where a hedging relationship exists, the Company documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking derivatives that are used in hedging transactions to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also assesses, both at the hedge's inception and on an ongoing basis, whether derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items. Hedge effectiveness is reviewed quarterly through a combination of critical terms matching and correlation testing.

Derivatives not designated as hedges for accounting purposes

For derivative investments not designated as accounting hedges, changes in fair value are recorded in net investment income.

Fair value hedges

For fair value hedges, changes in fair value of both the hedging instrument and the hedged item are recorded in net investment income and consequently any ineffective portion of the hedge is recorded immediately to net investment income.

The Company currently has interest rate futures designated as fair value hedges.

Cash flow hedges

Certain interest rate swaps and cross-currency swaps are used to hedge cash flows. For cash flow hedges, the effective portion of the changes in fair value of the hedging instrument are recorded in the same manner as the hedged item in either net investment income or OCI while the ineffective portion is recognized immediately in net investment income. Gains and losses that accumulate in OCI are recorded in net investment income in the same period the hedged item affects net income. Gains and losses on cash flow hedges are immediately reclassified from OCI to net investment income if and when it is probable that a forecasted transaction is no longer expected to occur.

The ineffective portion of the cash flow hedges during 2008 and the anticipated net gains (losses) reclassified to AOCI within the next twelve months is $3. The maximum time frame for which variable cash flows are hedged is 36 years.

Net Investment Hedges

Foreign exchange forward contracts are used to hedge the net investment in the Company's foreign operations. Changes in the fair value of these hedges are recorded in OCI. Hedge accounting is discontinued when the hedging no longer qualifies for hedge accounting.

The Company currently has no derivatives designated as net investment hedges.

1. Basis of Presentation and Summary of Accounting Policies (cont'd)

(h) Foreign Currency Translation

The Company follows the current rate method of foreign currency translation for its net investment in its self-sustaining foreign operations. Under this method, assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet dates and all income and expense items are translated at an average of daily rates. Unrealized foreign currency translation gains and losses on the Company's net investment in its self-sustaining foreign operations are presented separately as a component of OCI. Unrealized gains and losses will be recognized proportionately in net investment income on the Summaries of Consolidated Operations when there has been a net permanent disinvestment in the foreign operations. Foreign currency translation gains and losses on foreign currency transactions of the Company are included in net investment income and are not material to the financial statements of the Company.

(i) Loans to Policyholders

Loans to policyholders are shown at their unpaid balance and are fully secured by the cash surrender values of the policies. Carrying value of loans to policyholders approximates their fair value.

(j) Funds Held by Ceding Insurers/Funds Held Under Reinsurance Contracts

Under certain forms of reinsurance contracts, it is customary for the ceding insurer to retain possession of the assets supporting the liabilities ceded. The Company records an amount receivable from the ceding insurer or payable to the reinsurer representing the premium due. Investment revenue on these funds withheld is credited by the ceding insurer.

(k) Goodwill and Intangible Assets

Goodwill represents the excess of purchase consideration over the fair value of net assets of acquired subsidiaries of the Company. Intangible assets represent finite life and indefinite life intangible assets of acquired subsidiaries of the Company. Finite life intangible assets include the value of customer contracts and distribution channels. These finite life intangible assets are amortized over their estimated useful lives, generally not exceeding 20 years and 30 years respectively. The Company tests goodwill and indefinite life intangible assets for impairment using a two-step fair value-based test annually, and when an event or change in circumstances indicates that the asset might be impaired. Goodwill and intangible assets are written down when impaired to the extent that the carrying value exceeds the estimated fair value.

Impairment Testing

Goodwill

In the first test, goodwill is assessed for impairment by determining whether the fair value of the reporting unit to which the goodwill is associated is less than its carrying value. When the fair value of the reporting unit is less than its carrying value, the second test compares the fair value of the goodwill in that reporting unit to its carrying value. If the fair value of goodwill is less than its carrying value, goodwill is considered to be impaired and a charge for impairment is recognized immediately. The fair value of the reporting units is derived from internally developed valuation models consistent with those used when the company is acquiring businesses, using a market or income approach. The discount rates used are based on an industry weighted cost of capital and consider the risk free rate, market equity risk premium, size premium and operational risk premium for possible variations from projections.

Indefinite life intangibles

The fair value of intangible assets for customer contracts, the Shareholder portion of acquired future Participating account profits and certain property leases are estimated using an income approach as described for goodwill above. The fair value of brands and trademarks is estimated using a relief-from-royalty approach using the present value of expected after-tax royalty cash flows through licensing agreements.

(l) Revenue Recognition

Premiums for all types of insurance contracts, and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due and collection is reasonably assured. When premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue.

The Company's premium revenues, total paid or credited to policyholders and policy liabilities are all shown net of reinsurance amounts ceded to, or including amounts assumed from, other insurers.

Fee and other income is recognized when earned, collectible and the amount can be reasonably estimated. Fee and other income primarily includes fees earned from the management of segregated fund assets, proprietary mutual funds assets, fees earned on the administration of administrative services only (ASO) Group health contracts and fees earned from management services.

(m) Fixed Assets

Included in other assets are fixed assets that are carried at cost less accumulated amortization computed on a straight-line basis over their estimated useful lives, which vary from 3 to 15 years. Amortization of fixed assets included in the Summaries of Consolidated Operations is $67 ($95 in 2007).

(n) Actuarial Liabilities

Actuarial liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commission and policy administrative expenses for all insurance and annuity policies in force with the Company. The Appointed Actuaries of the Company's subsidiary companies are responsible for determining the amount of the actuarial liabilities to make appropriate provision for the Company's obligations to policyholders. The Appointed Actuaries determine the actuarial liabilities using generally accepted actuarial practices, according to standards established by the Canadian Institute of Actuaries. The valuation uses the Canadian Asset Liability Method (CALM). This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment. Actuarial liabilities of the Company are discussed in note 9.

(o) Income Taxes

The Company uses the liability method of income tax allocation. Current income taxes are based on taxable income and future income taxes are based on taxable temporary differences. The income tax rates used to measure income tax assets and liabilities are those rates enacted or substantively enacted at the balance sheet date (see note 22).

(p) Repurchase Agreements

The Company enters into repurchase agreements with third-party broker-dealers in which the Company sells securities and agrees to repurchase substantially similar securities at a specified date and price. Such agreements are accounted for as investment financings.

(q) Pension Plans and Other Post-Retirement Benefits

The Company's subsidiaries maintain contributory and non-contributory defined benefit pension plans for certain employees and advisors. The Company's subsidiaries also maintain defined contribution pension plans for certain employees and advisors. The cost of defined pension benefits is charged to earnings using the projected benefit method prorated on services (see note 18).

The Company's subsidiaries also provide post-retirement health, dental and life insurance benefits to eligible employees, advisors and their dependents. The cost of post-retirement health, dental and life insurance benefits is charged to earnings using the projected benefit method prorated on services (see note 18).

(r) Stock Based Compensation

The Company follows the fair value based method of accounting for the valuation of compensation expense for options granted to employees under its stock option plan (see note 17). Compensation expense is recognized as an increase to compensation expense in the Summaries of Consolidated Operations and an increase to contributed surplus over the vesting period of the granted options. When options are exercised, the proceeds received, along with the amount in contributed surplus, is transferred to share capital.

(s) Earnings Per Common Share

Earnings per common share is calculated using net income after preferred share dividends and the weighted average number of common shares outstanding. The treasury stock method is used for calculating diluted earnings per common share (see note 19).

(t) Geographic Segmentation

The Company has significant operations in Canada, the United States and Europe. Reinsurance operations and operations in all countries other than Canada and the United States are reported as part of the Europe segment.

(u) Consolidation of Variable Interest Entities

The Company adopted the Emerging Issues Committee (EIC) of the CICA EIC-163, *Determining the Variability to be Considered in Applying AcG-15* on January 1, 2007. EIC-163 provides additional guidance on consolidation of variable interest entities. This change in accounting policy did not have a material impact to the financial statements of the Company.

(v) Comparative Figures

Certain of the 2007 amounts presented for comparative purposes have been reclassified to conform to the presentation adopted in the current year. This reclassification has resulted in a decrease in other assets of $194 at December 31, 2007 with a corresponding change in policy liabilities on the Consolidated Balance Sheets. On the Summaries of Consolidated Operations this reclassification resulted in a decrease in total paid or credited to policyholders of $102 for the year ended December 31, 2007 with a corresponding increase in income tax expense.

1. Basis of Presentation and Summary of Accounting Policies (cont'd)

(w) **Future Accounting Policies**

Goodwill and Intangible Assets

Effective January 1, 2009 the Company will adopt the CICA Handbook Section 3064, Goodwill and Intangible Assets. This section replaces existing section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. This section establishes new standards for the recognition and measurement of intangible assets, but does not affect the accounting for goodwill. The Company does not anticipate that this standard will have a material impact on the financial results of the Company.

2. Acquisitions and Disposals

(a) On August 3, 2007, Lifeco acquired the asset management business of Putnam Investments Trust (Putnam), and Great-West Life and London Life acquired Putnam's 25% interest in T.H. Lee Partners (T.H. Lee), from Marsh & McLennan Companies Inc. representing an aggregate transaction value of approximately $4.2 billion including transaction costs.

Financing of the transaction is described in note 11.

The allocation of the purchase price, which was finalized in 2008, is summarized as follows:

Value of assets acquired:		
Cash and certificates of deposit	$	74
Stocks		441
Accounts receivable		567
Future income tax asset		347
Grantor trust		348
Other assets		571
	$	2,342
Value of liabilities assumed:		
Accounts payable and accrued expenses	$	657
Future income tax payable		180
Deferred compensation		171
Grantor trust		348
Other liabilities		273
Non-controlling interests		2
		1,631
Fair value of net assets acquired	$	711
Total purchase consideration:		
Cash	$	4,143
Transaction and related costs, net of income taxes		91
		4,234
Goodwill and intangible assets on acquisition	$	3,523
Finite life intangibles	$	184
Indefinite life intangibles		2,388
Goodwill		951
Goodwill and intangible assets on acquisition	$	3,523

Included in other liabilities assumed are accruals for Putnam costs of $154 related to planned restructuring and exit activities involving operations and systems, compensation and facilities costs (refer to note 3).

Results of Putnam are included in the Summaries of Consolidated Operations from the date of acquisition. Putnam offers investment management products and services, mainly in the United States.

(b) On April 1, 2008, GWL&A completed the sale of its health care business, Great-West Healthcare. As part of the transaction GWL&A received U.S. $1.5 billion in gross proceeds, and approximately U.S. $750 million representing the amount of equity invested in the health care business was made available for other purposes.

The sale proceeds and the equity invested were applied to outstanding short term credit facilities and a term loan (refer to note 11).

As a result of the sale a net gain of $1,025 ($649 after-tax) was recorded in net income from discontinued operations on the Summaries of Consolidated Operations. The gain is net of a charge of $329 ($208 after-tax) as a result of costs associated with the sale. In accordance with CICA Handbook Section 3475, *Disposal of Long-lived Assets and Discontinued Operations* the operating results and assets and liabilities of the health care business have been presented as discontinued operations in the financial statements of the Company.

After-tax net income of the health care business presented as discontinued operations on the Summaries of Consolidated Operations is comprised of the following:

	2008	2007
Income		
Premium income	$ 184	$ 983
Net investment income	11	81
Fee and other income	164	765
	359	1,829
Gain on sale	1,025	–
	1,384	1,829
Benefits and expenses		
Paid or credited to policyholders and beneficiaries including policyholder dividends and experience refunds	151	851
Other	145	689
Net income from discontinued operations before income taxes	1,088	289
Income taxes	396	86
Net income from discontinued operations	$ 692	$ 203

As a result of the sale of its health care business, GWL&A recognized a charge of $58 after-tax relating to the strengthening of reserves in its continuing operations.

On the Consolidated Balance Sheets assets and liabilities of operations held for sale are comprised of the following:

	2008	2007
Assets		
Bonds	$ –	$ 241
Cash and cash equivalents	–	26
Goodwill	–	47
Intangible assets	–	11
Other assets	–	372
Assets for operations held for sale	$ –	$ 697
Liabilities		
Policy liabilities	$ –	$ 248
Other liabilities	–	180
Liabilities of operations held for sale	$ –	$ 428

As of April 1, 2008 all of the assets and liabilities of operations held for sale have been sold.

(c) On October 22, 2008, Great-West Life entered into an agreement with Fidelity Investments Canada ULC (Fidelity) whereby Fidelity will transition its Canadian group retirement and savings plan record-keeping business to Great-West Life, representing $1.1 billion in assets under administration. The financial statements of the Company do not include the assets, liabilities, deposits and withdrawals or claims payments related to this business, however the Company will earn fee and other income from it.

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2. Acquisitions and Disposals (cont'd)

(d) On July 5, 2007, Canada Life acquired all of the outstanding common shares of Crown Life Insurance Company (Crown Life) for cash consideration of $118, including transaction costs. The acquisition was pursuant to the terms of the 1999 acquisition of the majority of the insurance operation of Crown Life by Canada Life.

The acquisition resulted in an initial increase in invested assets of $459, an increase in other assets of $24, an increase in policyholder liabilities of $336, an increase in other liabilities of $48, and estimated goodwill of $19.

Results of Crown Life are included in the Summaries of Consolidated Operations from the date of acquisition.

(e) On May 31, 2007, GWL&A acquired an 80% equity interest in Benefits Management Corporation (BMC). The assets acquired, liabilities assumed and the Company's equity interest in the results of BMC's operations have been included in its consolidated financial statements since that date. The acquisition added approximately 90,000 members to the Company's medical membership. BMC's principal subsidiary, Allegiance Benefit Management, Inc., is a Montana-based third-party administrator of employee health plans. BMC's business was sold in 2008 as part of the sale of Great-West Healthcare as described in note 2(b).

3. Restructuring Costs

(a) Following the acquisition of Putnam LLC on August 3, 2007, the Company developed a plan to restructure and exit certain operations of Putnam. The Company expects the restructuring to be substantially complete by the end of 2009. Costs of $184 (U.S. $175) are expected to be incurred as a result by the U.S. operating segment and consist primarily of restructuring and exit activities involving operations and systems, compensation and facilities costs. Accrued restructuring costs are included in other liabilities in the Consolidated Balance Sheets and restructuring charges are included in the Summaries of Consolidated Operations. The costs include approximately $154 (U.S. $146) that was recognized as part of the purchase equation of Putnam and costs of approximately $30 (U.S. $29) will be charged to income as incurred.

The following details the amount and status of restructuring program costs:

	Expected total costs	Amounts utilized – 2007	Amounts utilized – 2008	Balance December 31, 2008
Compensation costs	$ 133	$ (27)	$ (76)	$ 30
Exiting and consolidating operations	22	(6)	(5)	11
Eliminating duplicate systems	29	(1)	–	28
	$ 184	$ (34)	$ (81)	$ 69
Accrued on acquisition	$ 154	$ (34)	$ (81)	$ 39
Expense as incurred	30	–	–	30
	$ 184	$ (34)	$ (81)	$ 69

(b) During the fourth quarter of 2008, the Company expanded its original restructuring plans for its subsidiary Putnam LLC to include a broader restructuring of its business. This expanded restructuring plan is intended to clear up complexities, better focus Putnam's service and distribution in core markets, respond to the impact of financial market conditions on assets and revenues, and build a culture that rewards excellence. It is expected to be completed in two phases. The first phase included a restructuring of the Company's equity investment unit including consolidating fund offerings, emphasizing fundamental research, vesting full authority and responsibility with individual fund managers, and realigning manager incentives. The second phase will include the restructuring of Putnam's operations, distribution, and other areas. The total additional restructuring expenses associated with the expanded plan are $70 ($58 U.S.) and are reflected in restructuring expenses in the Summaries of Consolidated Operations.

4. Portfolio Investments

(a) Carrying values and estimated market values of portfolio investments are as follows:

2008

	Carrying Value & Market Value			Amortized Cost				Total
	Available for sale	Held for trading[(1)] Designated	Held for trading[(1)] Classified	Carrying Value Loans and receivables	Market Value Loans and receivables	Carrying Value Non-financial instruments	Market Value Non-financial instruments	Carrying value
Bonds								
– government	$ 3,594	$ 16,197	$ 836	$ 1,877	$ 1,879	$ –	$ –	$ 22,504
– corporate	2,051	33,319	849	7,831	7,371	–	–	44,050
	5,645	49,516	1,685	9,708	9,250	–	–	66,554
Mortgage loans								
– residential	–	–	–	6,986	7,157	–	–	6,986
– non-residential	–	–	–	10,458	10,414	–	–	10,458
	–	–	–	17,444	17,571	–	–	17,444
Stocks	1,411	3,653	–	–	–	330	326	5,394
Real estate	–	–	–	–	–	3,188	3,053	3,188
	$ 7,056	$ 53,169	$ 1,685	$ 27,152	$ 26,821	$ 3,518	$ 3,379	$ 92,580

2007

	Carrying Value & Market Value			Amortized Cost				Total
	Available for sale	Held for trading[(1)] Designated	Held for trading[(1)] Classified	Carrying Value Loans and receivables	Market Value Loans and receivables	Carrying Value Non-financial instruments	Market Value Non-financial instruments	Carrying value
Bonds								
– government	$ 1,541	$ 16,554	$ 635	$ 1,775	$ 1,877	$ –	$ –	$ 20,505
– corporate	2,504	34,030	1,005	7,025	7,130	–	–	44,564
	4,045	50,584	1,640	8,800	9,007	–	–	65,069
Mortgage loans								
– residential	–	–	–	7,121	7,127	–	–	7,121
– non-residential	–	–	–	8,748	8,879	–	–	8,748
	–	–	–	15,869	16,006	–	–	15,869
Stocks	1,432	4,791	–	–	–	320	461	6,543
Real estate	–	–	–	–	–	2,547	2,844	2,547
	$ 5,477	$ 55,375	$ 1,640	$ 24,669	$ 25,013	$ 2,867	$ 3,305	$ 90,028

(1) Investments can be held for trading in two ways: designated as held for trading at the option of management; or, classified as held for trading if they are actively traded for the purpose of earning investment income.

During the fourth quarter, the Company changed its pricing methodology for monoline wrapped, asset-backed securities backed by prime home improvement loans which are held by its US subsidiary GWL&A. The Company concluded that an internal model utilizing asset-backed index spread vs. an external pricing source utilizing credit default swap spread assumptions, would result in a better measurement of fair value for securities. Utilizing internal models for these securities, which have a fair market value of $454, resulted in a decrease to unrealized losses in the amount of $157 when compared to the external pricing source. The use of internal valuation models did not affect the Company's operations, liquidity or capital resources during the period.

4. Portfolio Investments (cont'd)

(b) Stocks include the Company's investment in an affiliated company, IGM Financial Inc. (IGM), a member of the Power Financial Corporation group of companies, over which it exerts significant influence but does not control. The investment is accounted for using the equity method of accounting.

	2008	2007
Carrying value, beginning of year	$ 320	$ 306
Equity method earnings	28	30
Dividends	(18)	(16)
Carrying value, end of year	$ 330	$ 320
Share of equity, end of year	$ 148	$ 142
Fair value, end of year	$ 326	$ 461

The Company owns 9,205,897 shares of IGM at December 31, 2008 (9,206,401 at December 31, 2007) representing a 3.51% ownership interest (3.48% at December 31, 2007).

(c) Included in portfolio investments are the following:

(i) Impaired investments

	2008	2007
Bonds	$ 46	$ (1)
Mortgage loans	10	(10)
	$ 56	$ (11)

Impaired investments reflect gross amounts of $271 ($42 in 2007) reduced by other than temporary loss amounts of $215 ($53 in 2007). Included in the other than temporary loss amounts are portfolio provisions of $19 ($27 in 2007).

(ii) The allowance for credit losses and changes in the allowance for credit losses related to investments classified as loans and receivables are as follows:

	2008			2007		
	Bonds	Mortgage Loans	Total	Bonds	Mortgage Loans	Total
Balance, beginning of year	$ 34	$ 19	$ 53	$ 44	$ 30	$ 74
Net provision (recoveries) for credit losses – in year	–	4	4	(5)	(5)	(10)
Write-offs, net of recoveries	(9)	2	(7)	1	(2)	(1)
Other (including foreign exchange rate changes)	6	4	10	(6)	(4)	(10)
Balance, end of period	$ 31	$ 29	$ 60	$ 34	$ 19	$ 53

The allowance for credit losses is supplemented by the provision for future credit losses included in actuarial liabilities.

(d) Net investment income is comprised of the following:

2008	Bonds	Mortgage loans	Stocks	Real estate	Other	Total
Regular net investment income:						
Investment income earned	$ 4,158	$ 953	$ 195	$ 170	$ 434	$ 5,910
Net realized gains (losses) *(available for sale)*	59	–	(19)	–	–	40
Net realized gains (losses) *(other classifications)*	30	28	–	–	–	58
Amortization of net realized/unrealized gains *(non-financial instruments)*	–	–	–	23	–	23
Net (provision) recovery of credit losses *(loans and receivables)*	–	(4)	–	–	–	(4)
Other income and expenses	–	–	–	–	(65)	(65)
	4,247	977	176	193	369	5,962
Changes in fair value on held for trading assets:						
Net realized/unrealized gains (losses) *(classified held for trading)*	9	–	–	–	–	9
Net realized/unrealized gains (losses) *(designated held for trading)*	(3,684)	–	(1,689)	–	203	(5,170)
	(3,675)	–	(1,689)	–	203	(5,161)
Net investment income	$ 572	$ 977	$ (1,513)	$ 193	$ 572	$ 801

2007	Bonds	Mortgage loans	Stocks	Real estate	Other	Total
Regular net investment income:						
Investment income earned	$ 3,619	$ 894	$ 193	$ 128	$ 612	$ 5,446
Net realized gains (losses) *(available for sale)*	57	–	8	–	–	65
Net realized gains (losses) *(other classifications)*	16	26	–	–	–	42
Net impairment recoveries	5	5	–	–	–	10
Amortization of deferred net realized gains	–	–	–	71	–	71
Other income and expenses	–	–	–	–	(69)	(69)
	3,697	925	201	199	543	5,565
Changes in fair value on held for trading assets:						
Net realized/unrealized gains (losses) *(classified held for trading)*	(12)	–	–	–	–	(12)
Net realized/unrealized gains (losses) *(designated held for trading)*	(1,085)	–	126	–	(127)	(1,086)
	(1,097)	–	126	–	(127)	(1,098)
Net investment income	$ 2,600	$ 925	$ 327	$ 199	$ 416	$ 4,467

(e) Also included in portfolio investments are modified/restructured loans of $18 ($8 in 2007) that are performing in accordance with their current terms.

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5. Financial Instrument Risk Management

The Company has policies relating to the identification, measurement, monitoring, mitigating, and controlling of risks associated with financial instruments. The key risks related to financial instruments are credit risk, liquidity risk and market risk (currency, interest rate and equity). The following sections describe how the Company manages each of these risks.

(a) Credit Risk

Credit risk is the risk of financial loss resulting from the failure of debtors making payments when due. The following policies and procedures are in place to manage this risk:

- Investment guidelines are in place that require only the purchase of investment-grade assets and minimize undue concentration of assets in any single geographic area, industry and company.
- Investment guidelines specify minimum and maximum limits for each asset class. Credit ratings are determined by recognized external credit rating agencies and/or internal credit review.
- Investment guidelines also specify collateral requirements.
- Portfolios are monitored continuously, and reviewed regularly with the Boards of Directors or the Investment Committees of the Boards of Directors.
- Credit risk associated with derivative instruments is evaluated quarterly based on conditions that existed at the balance sheet date, using practices that are at least as conservative as those recommended by regulators.
- The Company is exposed to credit risk relating to premiums due from policyholders during the grace period specified by the insurance policy or until the policy is paid up or terminated. Commissions paid to agents and brokers are netted against amounts receivable, if any.
- Reinsurance is placed with counterparties that have a good credit rating and concentration of credit risk is managed by following policy guidelines set each year by the Board of Directors. Management continuously monitors and performs an assessment of creditworthiness of reinsurers.

(i) Maximum Exposure to Credit Risk

The following table summarizes the Company's maximum exposure to credit risk related to financial instruments. The maximum credit exposure is the carrying value of the asset net of any allowances for losses.

	2008	2007
Cash and cash equivalents	$ 2,850	$ 3,650
Bonds		
Held for trading	51,201	52,224
Available for sale	5,645	4,045
Amortized cost	9,708	8,800
Mortgage loans	17,444	15,869
Loans to policyholders	7,622	6,317
Other financial assets	15,004	4,661
Derivative assets	677	924
Total balance sheet maximum credit exposure	$ 110,151	$ 96,490

Credit risk is also mitigated by entering into collateral agreements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Management monitors the value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable.

(ii) Concentration of Credit Risk

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics in that they operate in the same geographic region or in similar industries. The characteristics are similar in that changes in economic or political environments may impact their ability to meet obligations as they come due.

The following table provides details of the carrying value of bonds by industry sector and geographic distribution:

	2008
Bonds issued or guaranteed by:	
Canadian federal government	$ 1,867
Canadian provincial and municipal governments	6,029
U.S. Treasury and other U.S. agencies	4,968
Other foreign governments	6,854
Government related	1,563
Sovereign	1,739
Asset-backed securities	7,243
Residential mortgage backed securities	1,156
Banks	5,070
Other financial institutions	3,602
Basic materials	870
Communications	1,220
Consumer products	4,104
Industrial products/services	1,985
Natural resources	1,813
Real estate	1,645
Transportation	2,497
Utilities	7,068
Miscellaneous	1,866
Total long term bonds	63,159
Short term bonds	3,395
	$ 66,554
Canada	$ 26,231
United States	17,703
Europe/Reinsurance	22,620
	$ 66,554

The following table provides details of the carrying value of mortgage loans by geographic location:

	2008			
	Single family residential	Multi-family residential	Commercial	Total
Canada	$ 1,850	$ 4,524	$ 6,144	$ 12,518
United States	–	576	1,581	2,157
Europe	–	36	2,733	2,769
Total mortgages	$ 1,850	$ 5,136	$ 10,458	$ 17,444

	2007			
	Single family residential	Multi-family residential	Commercial	Total
Canada	$ 1,794	$ 4,783	$ 5,403	$ 11,980
United States	–	514	1,125	1,639
Europe	–	30	2,220	2,250
Total mortgages	$ 1,794	$ 5,327	$ 8,748	$ 15,869

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5. Financial Instrument Risk Management (cont'd)

(iii) Asset Quality

Bond Portfolio Quality	2008	2007
AAA	$ 25,138	$ 28,134
AA	10,765	10,886
A	18,030	16,451
BBB	8,809	7,451
BB and lower	417	457
	63,159	63,379
Short term bonds	3,395	1,690
Total bonds	$ 66,554	$ 65,069

Derivative Portfolio Quality	2008	2007
Over-the-counter contracts (counterparty ratings):		
AAA	$ 19	$ –
AA	165	598
A	468	375
Total	$ 652	$ 973

(iv) Loans Past Due, But Not Impaired

Loans that are past due but not considered impaired are loans for which scheduled payments have not been received, but management has reasonable assurance of timely collection of the full amount of principal and interest due. The following table provides carrying values of the loans past due, but not impaired:

	2008	2007
Less than 30 days	$ 50	$ 87
30-90 days	4	2
90 days and greater	1	1
Total	$ 55	$ 90

(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The following policies and procedures are in place to manage this risk:

- The Company closely manages operating liquidity through cash flow matching of assets and liabilities.
- Management monitors the use of line of credit on a regular basis, and assesses the ongoing availability of these and alternative forms of operating credit.
- Management closely monitors the solvency and capital positions of its principal subsidiaries opposite liquidity requirements at the holding company. Additional liquidity is available through established lines of credit and the Company's demonstrated ability to access capital markets for funds. The Company maintains a $200 million committed line of credit with a Canadian chartered bank.

In the normal course of business the Company enters into contracts that give rise to commitments of future minimum payments that impact short-term and long-term liquidity. The following table summarizes the principal repayment schedule of certain of the Company's financial liabilities.

	Payments due by period						
	Total	1 year	2 years	3 years	4 years	5 years	over 5 years
Debentures and other debt instruments	$ 3,820	$ 266	$ 1	$ 1	$ 372	$ 1	$ 3,179
Preferred share liabilities	756	–	–	–	–	557	199
Capital trust debentures (1)	800	–	–	–	–	–	800
Purchase obligations	216	73	56	47	27	13	–
Pension contributions	81	81	–	–	–	–	–
	$ 5,673	$ 420	$ 57	$ 48	$ 399	$ 571	$ 4,178

(1) Payments due have not been reduced to reflect the Company held capital trust securities of $175 principal amount ($167 carrying value).

(c) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors. Market factors include three types of risks: currency risk, interest rate risk and equity risk.

(i) Currency Risk

Currency risk relates to the Company operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur. The following policies and procedures are in place to mitigate the Company's exposure to currency risk.

- The Company uses financial measures such as constant currency calculations to monitor the effect of currency translation fluctuations.
- Investments are normally made in the same currency as the liabilities supported by those investments.
- Foreign currency assets acquired to back liabilities are normally converted back to the currency of the liability using foreign exchange contracts.
- A 10% increase in foreign currency rates would be expected to have minimal impact on non-participating actuarial liabilities. A 10% decrease in foreign currency rates would be expected to have minimal impact on non-participating actuarial liabilities.

(ii) Interest Rate Risk

Interest rate risk exists if asset and liability cash flows are not closely matched and interest rates change causing a difference in value between the asset and liability. The following policies and procedures are in place to mitigate the Company's exposure to interest rate risk.

- The Company utilizes a formal process for managing the matching of assets and liabilities. This involves grouping general fund assets and liabilities into segments. Assets in each segment are managed in relation to the liabilities in the segment.
- Interest rate risk is managed by investing in assets that are suitable for the products sold.
- For products with fixed and highly predictable benefit payments, investments are made in fixed income assets that closely match the liability product cash flows. Protection against interest rate change is achieved as any change in the fair market value of the assets will be offset by a similar change in the fair market value of the liabilities.
- For products with less predictable timing of benefit payments, investments are made in fixed income assets with cash flows of a shorter duration than the anticipated timing of benefit payments, or equities as described below.
- The risk associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure and the pace of asset acquisition are quantified and reviewed regularly.

Projected cash flows from the current assets and liabilities are used in CALM to determine actuarial liabilities. Cash flows from assets are reduced to provide for potential asset default losses. Testing under several interest rate scenarios (including increasing and decreasing rates) is done to assess reinvestment risk.

One way of measuring the interest rate risk associated with this assumption is to determine the effect on the present value of the projected net asset and liability cash flows of the non-participating business of the Company of an immediate and permanent 1% increase and 1% decrease in interest rates at each future duration. These interest rate changes will impact the projected cash flows.

- The effect of an immediate and permanent 1% increase in interest rates at each future duration would be to decrease the present value of these net projected cash flows by approximately $31.
- The effect of an immediate and permanent 1% decrease in interest rates at each future duration would be to decrease the present value of these net projected cash flows by approximately $149.

(iii) Equity Risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. To mitigate price risk, the Company has investment policy guidelines in place that provide for prudent investment in equity markets within clearly defined limits.

Some policy liabilities are supported by equities, for example segregated fund products and products with long-tail liabilities. Generally these liabilities will fluctuate in line with equity market values. There will be additional impacts on these liabilities as equity market values fluctuate. A 10% increase in equity markets would be expected to additionally decrease non-participating actuarial liabilities by approximately $42. A 10% decrease in equity markets would be expected to additionally increase non-participating actuarial liabilities by approximately $245.

6. Pledging of Assets

The amount of assets which have a security interest by way of pledging is $8 ($7 in 2007) in respect of derivative transactions and $600 ($733 in 2007) in respect of reinsurance agreements.

7. Goodwill and Intangible Assets

During the fourth quarter of 2008 a subsidiary in the United States segment, Putnam LLC, recorded a non-cash impairment charge on its indefinite life intangibles of $1,090 ($901 U.S.) and goodwill of $1,088 ($899 U.S.). The after-tax impact of the impairment charge is $1,353 ($1,118 U.S.).

Using estimates of the fair values of brands and trademarks, customer contract related intangibles, and goodwill the fair value was determined to be lower than the carrying amount and as a result an impairment charge was recorded. The impairment charge reflects management's assessment of the impact of the decline of Putnam's assets under management as a result of both negative asset flows and a deterioration of investment market conditions since the acquisition date.

The impairment charge is recorded in the Summaries of Consolidated Operations in the Intangible and goodwill impairment caption. While the entire Putnam goodwill was written off, it is possible that future changes in assumptions may result in the recognition of further impairment losses on the intangibles.

(a) Goodwill

The carrying value of goodwill and changes in the carrying value of goodwill are as follows:

	2008	2007
Balance, beginning of year	$ 6,295	$ 5,393
Acquisitions (note 2)	–	970
Other	–	2
Changes in foreign exchange rates	218	(70)
Impairment	(1,088)	–
Balance, end of year	$ 5,425	$ 6,295
Canada	$ 3,772	$ 3,772
United States	149	1,020
Europe	1,504	1,503
	$ 5,425	$ 6,295

(b) Intangible Assets

The carrying value of intangible assets and changes in the carrying value of intangible assets are as follows:

2008	Cost	Accumulated amortization	Changes in foreign exchange rates	Impairment	Carrying value, end of year
Indefinite life intangible assets					
– Brands and trademarks	$ 773	$ –	$ 39	$ (111)	$ 701
– Customer contract related	2,379	–	320	(979)	1,720
– Shareholder portion of acquired future Participating account profits	354	–	–	–	354
	3,506	–	359	(1,090)	2,775
Finite life intangible assets					
– Customer contract related	563	(108)	23	–	478
– Distribution channels	126	(20)	(9)	–	97
– Technology	13	(3)	1	–	11
– Property Leases	14	(4)	1	–	11
	716	(135)	16	–	597
Total	$ 4,222	$ (135)	$ 375	$ (1,090)	$ 3,372

	2007			
	Cost	Accumulated amortization	Changes in foreign exchange rates	Carrying value, end of year
Indefinite life intangible assets				
– Brands and trademarks	$ 773	$ –	$ (37)	$ 736
– Customer contract related	2,379	–	(115)	2,264
– Shareholder portion of acquired future Participating account profits	354	–	–	354
	3,506	–	(152)	3,354
Finite life intangible assets				
– Customer contract related	543	(76)	(26)	441
– Distribution channels	126	(16)	(11)	99
– Technology	13	(1)	(1)	11
– Property Leases	14	(1)	(1)	12
	696	(94)	(39)	563
Total	$ 4,202	$ (94)	$ (191)	$ 3,917

During 2008, in connection with the transition of the Canadian group retirement and savings plan record-keeping business of Fidelity (note 2(c)), the Company acquired approximately $20 of finite life intangible assets relating to customer contract related intangible assets. The value assigned to these intangible assets will be adjusted in 2009 as part of the finalization of the transaction in 2009.

During 2007, in connection with the acquisition of Putnam (note 2(a)), the Company acquired approximately $2,388 of indefinite life intangible assets relating to brands and customer contract related intangible assets and $184 of finite life intangible assets relating to customer contract related, technology and property lease intangible assets.

8. Other Assets

Other assets consist of the following:

	2008	2007
Premiums in course of collection	$ 502	$ 496
Interest due and accrued	1,086	1,014
Derivative financial instruments (note 1(a))	677	924
Other investment receivables	90	344
Current income taxes	320	–
Future income taxes (note 22)	1,674	530
Fixed assets	272	250
Prepaid expenses	141	117
Accounts receivable	762	954
Accrued pension asset (note 18)	274	228
Trading account assets	63	231
Other	917	690
	$ 6,778	$ 5,778

9. Actuarial Liabilities

(a) Composition of Actuarial Liabilities and Related Supporting Assets

(i) The composition of actuarial liabilities is as follows:

	Participating		Non-participating		Total	
	2008	2007	2008	2007	2008	2007
Canada	$ 19,194	$ 19,733	$ 19,852	$ 20,676	$ 39,046	$ 40,409
United States	8,951	7,153	14,110	11,999	23,061	19,152
Europe	1,571	1,739	34,217	26,187	35,788	27,926
Total	$ 29,716	$ 28,625	$ 68,179	$ 58,862	$ 97,895	$ 87,487

9. Actuarial Liabilities (cont'd)

(ii) The composition of the assets supporting liabilities and surplus is as follows:

2008	Bonds	Mortgage loans	Stocks	Real estate	Other	Total
Carrying value						
Participating	$ 13,743	$ 5,760	$ 2,512	$ 257	$ 7,444	$ 29,716
Non-participating						
Canada	11,888	5,282	741	8	1,933	19,852
United States	9,672	1,556	–	–	2,882	14,110
Europe	16,797	2,302	152	1,809	13,157	34,217
Other	6,982	2,082	920	308	8,659	18,951
Capital and surplus	7,472	462	1,069	806	3,419	13,228
Total carrying value	$ 66,554	$ 17,444	$ 5,394	$ 3,188	$ 37,494	$ 130,074
Market value	$ 66,096	$ 17,571	$ 5,390	$ 3,053	$ 37,494	$ 129,604

2007	Bonds	Mortgage loans	Stocks	Real estate	Other	Total
Carrying value						
Participating	$ 12,893	$ 5,340	$ 3,383	$ 225	$ 6,784	$ 28,625
Non-participating						
Canada	12,527	5,386	879	5	1,879	20,676
United States	10,163	1,333	16	–	487	11,999
Europe	19,036	1,984	183	1,326	3,658	26,187
Other	5,937	1,654	1,072	375	10,761	19,799
Capital and surplus	4,513	172	1,010	616	4,597	10,908
Total carrying value	$ 65,069	$ 15,869	$ 6,543	$ 2,547	$ 28,166	$ 118,194
Market value	$ 65,276	$ 16,006	$ 6,684	$ 2,844	$ 28,166	$ 118,976

Cash flows of assets supporting actuarial liabilities are matched within reasonable limits. Changes in the fair values of these assets are essentially offset by changes in the fair value of actuarial liabilities.

Changes in the fair values of assets backing capital and surplus, less related income taxes, would result in a corresponding change in surplus over time in accordance with investment accounting policies.

(b) Changes in Actuarial Liabilities

The change in actuarial liabilities during the year was the result of the following business activities and changes in actuarial estimates:

	Participating		Non-participating		Total	
	2008	2007	2008	2007	2008	2007
Balance, end of previous year	$ 28,625	$ 27,744	$ 58,862	$ 61,672	$ 87,487	$ 89,416
Fair value adjustment	–	1,716	–	2,177	–	3,893
Balance, beginning of year	28,625	29,460	58,862	63,849	87,487	93,309
Impact of new business	(8)	7	4,094	3,536	4,086	3,543
Normal change in force	(730)	(556)	(6,991)	(6,094)	(7,721)	(6,650)
Management action and changes in assumptions	41	(3)	131	53	172	50
Business movement from/to external parties	–	76	12,039	1,903	12,039	1,979
Impact of foreign exchange rate changes	1,788	(359)	44	(4,385)	1,832	(4,744)
Balance, end of year	$ 29,716	$ 28,625	$ 68,179	$ 58,862	$ 97,895	$ 87,487

The 2007 amounts presented above for comparative purposes have reflected the reclassification of liabilities between tax liabilities and actuarial liabilities to conform to the presentation adopted in the current year.

With the adoption of fair value accounting in 2007, movement in the market value of the supporting assets has become a major factor in the movement of actuarial liabilities. The movement in the actuarial liabilities on introduction of fair value is noted in the Fair Value Adjustment line above. The movement during 2007 and 2008 is included in the Normal Change In Force above.

In 2008 the major contributors to the increase in actuarial liabilities were the reinsurance of a large block of UK payout annuities from Standard Life Assurance Limited, the impact of new business and the impact of foreign exchange rates partially offset by the normal change in the in force business.

Non-participating actuarial liabilities increased by $131 in 2008 due to management actions and assumption changes. By segment a $250 increase in Europe and $63 increase in the United States were partially offset by a $182 decrease in Canada. The increase in Europe was primarily due to strengthened life annuitant mortality ($203 increase), strengthened provisions for asset liability matching ($109 increase) and strengthened provisions for asset default ($108 increase) partially offset by two annuitant mortality risk transfer agreements ($98 decrease) and improved morbidity ($68 decrease). The increase in the United States was primarily due to strengthened expenses ($82 increase). The decrease in Canada was primarily due to improved Individual Life mortality ($105 decrease) and improved Individual and Group morbidity ($94 decrease).

Participating actuarial liabilities increased by $41 in 2008 due to management actions and assumption changes. This increase was primarily due to lowered investment returns ($76 increase) and an increase in the provision for future policyholder dividends ($93 increase), partially offset by improved life mortality ($66 decrease) and improved expenses and taxes ($62 decrease).

In 2007 the major contributor to the decline in actuarial liabilities was the impact of foreign exchange rates partially offset by the recapture from an external reinsurer of the remainder of the group business not recaptured in 2006 and the acquisition of all of the outstanding common shares of Crown Life.

Non-participating actuarial liabilities increased by $53 in 2007 due to management actions and assumption changes. This increase was primarily due to strengthened provisions for asset liability matching ($146 increase), and life annuitant mortality strengthening ($88 increase), partially offset by improved life mortality ($84 decrease), reduced expense and tax provisions ($57 decrease) and reduced Group waiver and LTD provisions ($51 decrease).

Participating actuarial liabilities decreased by $3 in 2007 due to management actions and assumption changes. This decrease was primarily due to improved investment returns ($265 decrease), reduced expense and tax provisions ($188 decrease) and improved life mortality ($149 decrease), partially offset by an increase in the provision for future policyholder dividends ($558 million increase).

(c) Actuarial Assumptions

In the computation of actuarial liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses and rates of policy termination. The valuation assumptions use best estimates of future experience together with a margin for misestimation and experience deterioration. These margins have been set in accordance with guidelines established by the Canadian Institute of Actuaries and are necessary to provide reasonable assurance that actuarial liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

The methods for arriving at these valuation assumptions are outlined below:

Mortality

A life insurance mortality study is carried out annually for each major block of insurance business. The results of each study are used to update the Company's experience valuation mortality tables for that business. When there is insufficient data, use is made of the latest industry experience to derive an appropriate valuation mortality assumption. Although mortality improvements have been observed for many years, for life insurance valuation the mortality provisions (including margin) do not allow for future improvements. A 1% increase in the best estimate assumption would increase non-participating actuarial liabilities by approximately $108.

Annuitant mortality is also studied regularly and the results used to modify established industry experience annuitant mortality tables. Mortality improvement has been projected to occur throughout future years for annuitants. A 1% decrease in the best estimate assumption would increase non-participating actuarial liabilities by approximately $129.

9. Actuarial Liabilities (cont'd)

Morbidity

The Company uses industry developed experience tables modified to reflect emerging company experience. Both claim incidence and termination are monitored regularly and emerging experience is factored into the current valuation. For products for which morbidity is a significant assumption a 1% adverse change in the best estimate assumptions would increase non-participating actuarial liabilities by approximately $60.

Property and casualty reinsurance

Actuarial liabilities for property and casualty reinsurance written by London Reinsurance Group Inc. (LRG), a subsidiary of London Life, are determined using accepted actuarial practices for life insurers in Canada. Reflecting the long-term nature of the business, reserves have been established using cash flow valuation techniques including discounting. The reserves are based on cession statements provided by ceding companies. In certain instances, LRG management adjusts cession statement amounts to reflect management's interpretation of the treaty. Differences will be resolved via audits and other loss mitigation activities. In addition, reserves also include an amount for incurred but not reported losses (IBNR) which may differ significantly from the ultimate loss development. The estimates and underlying methodology are continually reviewed and updated and adjustments to estimates are reflected in income. LRG analyzes the emergence of claims experience against expected assumptions for each reinsurance contract separately and at the portfolio level. If necessary, a more in depth analysis is undertaken of the cedant experience.

Investment returns

The assets which correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in CALM to determine actuarial liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under several interest rate scenarios (including increasing and decreasing rates) is done to provide for reinvestment risk (see note 5(c)).

Expenses

Unit expense studies are updated regularly to determine an appropriate estimate of future expenses for the liability type being valued. Expense improvements are not projected. An inflation assumption is incorporated in the estimate of future expenses consistent with the interest rate scenarios projected under CALM. A 10% increase in the best estimate maintenance unit expense assumption Company wide would increase the non-participating actuarial liabilities by approximately $158.

Policy termination

Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where the Company has no experience with specific types of policies or its exposure is limited. A 10% adverse change in the best estimate policy termination assumption would increase non-participating actuarial liabilities by approximately $345.

Policyholder dividends

Future policyholder dividends are included in the determination of actuarial liabilities for participating policies, with the assumption that policyholder dividends will change in the future to reflect the experience of the respective participating accounts, consistent with the participating policyholder dividend policies. It is our expectation that associated with changes in the best estimate assumptions for participating business would be corresponding changes in policyholder dividend scales, resulting in an immaterial net change in actuarial liabilities for participating business.

(d) Risk Management

(i) Interest rate risk

Interest rate risk is managed by effectively matching portfolio investments with liability characteristics. Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes.

(ii) Credit risk

Credit risk is managed through an emphasis on quality in the investment portfolio and by maintenance of issuer, industry and geographic diversification standards.

Projected investment returns are reduced to provide for future credit losses on assets. The net effective yield rate reduction averaged .19% (.15% in 2007). The calculation for future credit losses on assets is based on the credit quality of the underlying asset portfolio.

The following outlines the future asset credit losses provided for in actuarial liabilities. These amounts are in addition to the allowance for asset losses included with assets:

	2008	2007
Participating	$ 552	$ 548
Non-participating	1,208	796
	$ 1,760	$ 1,344

(iii) Reinsurance risk

Maximum benefit amount limits per insured life (which vary by line of business) are established for life and health insurance and reinsurance is purchased for amounts in excess of those limits.

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

As a result of reinsurance, actuarial liabilities have been reduced by the following amounts:

	2008	2007
Participating	$ 112	$ 93
Non-participating	2,891	2,680
	$ 3,003	$ 2,773

Certain of the reinsurance contracts are on a funds withheld basis where the Company retains the assets supporting the reinsured actuarial liabilities, thus minimizing the exposure to significant losses from reinsurer insolvency on those contracts.

(iv) Foreign exchange risk

If the assets backing actuarial liabilities are not matched by currency, changes in foreign exchange rates can expose the Company to the risk of foreign exchange losses not offset by liability decreases.

Foreign exchange risk is managed whenever possible by matching assets with related liabilities by currency and through the use of derivative instruments such as forward contracts and cross-currency swaps. These financial instruments allow the Company to modify an asset position to more closely match actual or committed liability currency.

(v) Liquidity risk

Liquidity risk is the risk that the Company will have difficulty raising funds to meet commitments. The liquidity needs of the Company are closely managed through cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between policyholder requirements and the yield of assets. Approximately 71% of policy liabilities are non-cashable prior to maturity or subject to market value adjustments.

10. Financing Charges

Financing charges consist of the following:

	2008	2007
Interest on long-term debentures and other debt instruments	$ 242	$ 205
Dividends on preferred shares classified as liabilities (note 15 (i))	36	36
Unrealized gains on preferred shares classified as held for trading	(33)	(40)
Subordinated debenture issue costs	5	13
Other	9	18
Interest on capital trust debentures	49	49
Distributions on capital trust securities held by consolidated group as temporary investments	(12)	(12)
Total	$ 296	$ 269

GREAT-WEST LIFECO INC.

11. Debentures and Other Debt Instruments

Debentures and other debt instruments consist of the following:

	2008		2007	
	Carrying value	Market value	Carrying value	Market value
Short term				
Commercial paper and other short term debt instruments with interest rates from 0.6% to 2.4% (4.8% to 5.5% in 2007)	$ 119	$ 119	$ 95	$ 95
Credit facility at rate equal to the Canadian Bankers' Acceptance rate plus 0.25%	–	–	1,233	1,233
Credit facility at rate equal to LIBOR rate plus 0.25% (2007 – U.S. $647)	–	–	640	640
Revolving credit facility at a rate equal to LIBOR rate plus 0.25% (U.S. $120)	146	146	–	–
Total short term	265	265	1,968	1,968
Long term				
Operating:				
Notes payable with interest rate of 8.0% due May 6, 2014, unsecured	6	6	6	6
Capital:				
Lifeco				
6.75% Debentures due August 10, 2015, unsecured	200	206	200	209
6.14% Debentures due March 21, 2018, unsecured	200	186	200	213
6.74% Debentures due November 24, 2031, unsecured	200	169	200	231
6.67% Debentures due March 21, 2033, unsecured	400	376	400	460
	1,000	937	1,000	1,113
Canada Life				
Subordinated debentures due December 11, 2013 bearing a fixed rate of 5.8% until December 11, 2008 and, thereafter, at a rate equal to the Canadian 90-day Bankers' Acceptance rate plus 1%, unsecured	–	–	200	202
6.40% subordinated debentures due December 11, 2028, unsecured	100	86	100	111
Acquisition related fair market value adjustment	1	–	3	–
	101	86	303	313
Great-West Life & Annuity Insurance Capital, LP				
6.625% Deferrable debentures due November 15, 2034, unsecured (U.S. $175)	212	180	172	166
Great-West Life & Annuity Insurance Capital, LP II				
Subordinated debentures due May 16, 2046, bearing an interest rate of 7.153% until May 16, 2016 and thereafter, a rate of 2.538% plus the 3-month LIBOR rate, unsecured (U.S. $300)	366	200	297	291
Putnam Acquisition Financing LLC				
Five year term facility at LIBOR rate plus 0.30% (U.S. $304)	371	348	495	495
Great-West Lifeco Finance (Delaware) LP				
Subordinated debentures due June 21, 2067 bearing an interest rate of 5.691% until 2017 and, thereafter, at a rate equal to the Canadian 90-day Bankers' Acceptance rate plus 1.49%, unsecured	1,000	793	1,000	993
Subordinated debentures due June 26, 2068 bearing an interest rate of 7.127% until 2018 and, thereafter, at a rate equal to the Canadian 90-day Bankers' Acceptance rate plus 3.78%, unsecured	500	424	–	–
Total long term	3,556	2,974	3,273	3,377
Total debentures and other debt instruments	$ 3,821	$ 3,239	$ 5,241	$ 5,345

On June 26, 2008, the Company issued $500 of 7.127% Subordinated Debentures through its wholly-owned subsidiary Great-West Lifeco Finance (Delaware) LP II. The subordinated debentures are due June 26, 2068 and bear an interest rate of 7.127% until June 26, 2018. After June 26, 2018, the subordinated debentures will bear an interest rate of the Canadian 90-day bankers' acceptance rate plus 3.78%. Subject to a Replacement Capital Covenant, the subordinated debentures may be redeemed by the Company at the principal amount plus any unpaid and accrued interest after June 26, 2018.

On March 19, 2008, the Company repaid $235 on its one year credit facility with a Canadian chartered bank. On April 18, 2008 the Company repaid $730 Canadian and U.S. $345 on this facility and on June 26, 2008, the Company repaid the remaining $268 Canadian and U.S. $302 on this facility. The balance outstanding on this credit facility at December 31, 2007 was $1,873 ($1,233 Canadian and U.S. $647), and at June 30, 2008 the credit facility had been fully repaid.

During 2008, Putnam LLC also repaid U.S. $196 of the U.S. five year term facility.

On December 11, 2008, Canada Life repaid $200 principal amount of its 5.8% subordinated debentures, Series A.

On January 24, 2008, a subsidiary of Putnam LLC executed a demand promissory note in the amount of U.S. $150 with a Canadian Chartered Bank. On January 24, 2008, Putnam LLC drew U.S. $150 on the note. On March 26, 2008, a subsidiary of Putnam LLC executed a U.S. $200 revolving credit facility with a Canadian Chartered Bank and used proceeds from the facility to repay the U.S. $150 demand promissory note. There was U.S. $120 outstanding under the facility at December 31, 2008.

On June 20, 2007, Lifeco borrowed $124 under an existing revolving line of credit facility with a Canadian chartered bank. On August 2, 2007, Lifeco fully repaid the balance of $124.

On June 21, 2007, the Company issued $1.0 billion of 5.691% Subordinated Debentures through its wholly-owned subsidiary Great-West Lifeco Finance (Delaware) LP. The subordinated debentures are due June 21, 2067 and bear an annual interest rate of 5.691% until June 21, 2017. After June 21, 2017, the subordinated debentures will bear an interest rate of the Canadian 90-day bankers' acceptance rate plus 1.49%. The subordinated debentures may be redeemed by the Company at the principal amount plus any accrued and unpaid interest after June 21, 2017.

12. Other Liabilities

Other liabilities consist of the following:

	2008	2007
Current income taxes	$ 212	$ 260
Accounts payable	1,029	1,112
Liability for restructuring costs (note 3)	85	113
Pension and other post-retirement benefits (note 18)	550	540
Future income taxes (note 22)	317	272
Derivative financial instruments (note 1(a))	1,119	112
Other	2,657	2,802
	$ 5,969	$ 5,211

13. Capital Trust Securities and Debentures

	2008		2007	
	Carrying value	Market value	Carrying value	Market value
Capital trust debentures:				
5.995% Senior debentures due December 31, 2052, unsecured (GWLCT)	350	361	350	368
6.679% Senior debentures due June 30, 2052, unsecured (CLCT)	300	315	300	322
7.529% Senior debentures due June 30, 2052, unsecured (CLCT)	150	156	150	194
	800	832	800	884
Acquisition related fair market value adjustment	25	–	28	–
Trust securities held by consolidated group as temporary investments	(167)	(165)	(189)	(190)
Total	$ 658	$ 667	$ 639	$ 694

Great-West Life Capital Trust (GWLCT), a trust established by Great-West Life, had issued $350 of capital trust securities, the proceeds of which were used by GWLCT to purchase Great-West Life senior debentures in the amount of $350, and Canada Life Capital Trust (CLCT), a trust established by Canada Life, had issued $450 of capital trust securities, the proceeds of which were used by CLCT to purchase Canada Life senior debentures in the amount of $450. Distributions and interest on the capital trust securities are classified as financing charges on the Summaries of Consolidated Operations (see note 10).

14. Non-Controlling Interests

The Company had a controlling equity interest in Great-West Life, London Life, Canada Life, Putnam and GWL&A at December 31, 2008 and December 31, 2007.

On demutualization, $50 of seed capital was transferred from the shareholder account to the participating policyholder account of Canada Life. In accordance with the Conversion Proposal of Canada Life, the seed capital amount, together with a reasonable rate of return, may be transferred back to the shareholder account if the seed capital is no longer required to support the new participating policies.

In 2008, $5 of seed capital related to the Canadian open block of the participating policyholder account, together with accrued interest of $3 after-tax, was transferred from the participating policyholder account to the shareholder account. The repatriation (exclusive of interest) resulted in an increase in shareholder surplus of $5 and a decrease in non-controlling interest of $5. $28 of seed capital has been repaid to date.

14. Non-Controlling Interests (cont'd)

In 2008, non-controlling interests decreased by approximately $176 in connection with the termination of a long-standing assumption reinsurance agreement under which GWL&A had reinsured a block of U.S. participating policies.

(a) The non-controlling interests of Great-West Life, London Life, Canada Life, Putnam, GWL&A and their subsidiaries reflected in the Summaries of Consolidated Operations are as follows:

	2008	2007
Participating account		
Net income attributable to participating account before policyholder dividends		
Great-West Life	$ 129	$ 114
London Life	745	746
Canada Life	212	225
GWL&A	(173)	120
	913	1,205
Policyholder dividends		
Great-West Life	(122)	(113)
London Life	(679)	(623)
Canada Life	(226)	(220)
GWL&A	(2)	(108)
	(1,029)	(1,064)
Net income – participating account	(116)	141
Preferred shareholder dividends of subsidiaries	15	18
Non-controlling interests in subsidiaries	(7)	–
Total	$ (108)	$ 159

(b) The carrying value of non-controlling interests consists of the following:

	2008	2007
Participating account surplus:		
Great-West Life	$ 417	$ 411
London Life	1,549	1,470
Canada Life	31	36
GWL&A	15	186
	$ 2,012	$ 2,103
Preferred shares issued by subsidiaries:		
Great-West Life Series O, 5.55% Non-Cumulative	$ 157	$ 157
Perpetual preferred shares issued by subsidiaries:		
CLFC Series B, 6.25% Non-Cumulative	$ 145	$ 145
Acquisition related fair market value adjustment	5	7
	$ 150	$ 152
Non-controlling interests in subsidiaries	$ 13	$ 10

Non-controlling interests in capital stock and surplus includes non-controlling interests in Putnam controlled investments in institutional portfolio funds, hedge funds, Putnam sponsored mutual funds and PanAgora Asset Management Inc.

Prior to August 3, 2007, Putnam sponsored the Putnam Investments Trust Equity Partnership Plan (the EPP) which granted options and restricted shares to certain senior management and key employees of Putnam (the participants). As a result of the acquisition of Putnam, all outstanding awards were vested and settled in cash by Lifeco. The amount attributable to each participant was bifurcated, based upon a methodology provided in the EPP, into cash and a deferred amount. The participants received the cash portion immediately, and will receive the deferred amount over a three year period.

The deferred amount was contributed to Grantor Trusts established for the benefit of the participants. The participants may direct the manner in which their Grantor Trust amounts are invested, including the Putnam Class B shares, which are available pursuant to the EIP described in note 17(b). On December 4, 2007, the Grantor Trusts invested $74 in 2,096,801 Putnam Class B shares. Non-Controlling Interests of $74 have been eliminated on consolidation against Putnam Class B shares referred to in note 17(b). During 2008, 520,385 Putnam Class B shares vested, representing a minority interest in Putnam LLC of 0.54%.

On October 31, 2007, Great-West Life redeemed all 2,093,032 Non-Cumulative Preferred Shares, Series L for cash redemption price of $25.00 per share.

(c) The non-controlling interests of Great-West Life, London Life, Canada Life, Putnam, GWL&A and their subsidiaries reflected in OCI are as follows:

	2008	2007
Participating account		
Other comprehensive income (loss) attributable to participating account		
Great-West Life	$ (1)	$ (2)
London Life	13	(17)
Canada Life	14	1
GWL&A	4	(33)
Other comprehensive income (loss) – participating account	$ 30	$ (51)

15. Share Capital

Authorized

Unlimited First Preferred Shares, Class A Preferred Shares and Second Preferred Shares, Unlimited Common Shares

	2008		2007	
	Number	Carrying value	Number	Carrying value
Classified as liabilities				
Preferred shares:				
Designated as held for trading (1)				
Series D, 4.70% Non-Cumulative First Preferred Shares	7,938,500	$ 199	7,938,500	$ 205
Series E, 4.80% Non-Cumulative First Preferred Shares	22,282,215	553	22,282,215	581
	30,220,715	$ 752	30,220,715	$ 786
Classified as equity				
Perpetual preferred shares:				
Series F, 5.90% Non-Cumulative First Preferred Shares	7,957,001	$ 199	7,957,001	$ 199
Series G, 5.20% Non-Cumulative First Preferred Shares	12,000,000	300	12,000,000	300
Series H, 4.85% Non-Cumulative First Preferred Shares	12,000,000	300	12,000,000	300
Series I, 4.50% Non-Cumulative First Preferred Shares	12,000,000	300	12,000,000	300
Rate reset preferred shares:				
Series J, 6.00% Non-Cumulative First Preferred Shares	9,200,000	230	–	–
	53,157,001	$ 1,329	43,957,001	$ 1,099
Common shares:				
Balance, beginning of year	893,761,639	$ 4,709	891,151,789	$ 4,676
Issued from treasury	48,200,000	1,000	–	–
Issued under Stock Option Plan	1,920,866	27	2,609,850	33
Balance, end of year	943,882,505	$ 5,736	893,761,639	$ 4,709

(1) The Company has designated outstanding Preferred Shares Series D and Series E as held for trading on the Consolidated Balance Sheets with changes in fair value reported in the Summaries of Consolidated Operations. During the year ended December 31, 2008 the Company recognized a reduction in financing costs of $33 ($6 for Series D and $27 for Series E) and $40 ($8 for Series D and $32 for Series E) for the year ended December 31, 2007. The redemption price at maturity is $25 per share plus accrued dividends.

15. Share Capital (cont'd)

Preferred shares

On November 27, 2008 the Company issued 9,200,000 Series J, 6.00% Non-Cumulative 5-Year Rate Reset First Preferred Shares. The shares are redeemable at the option of the Company on December 31, 2013 and on December 31 every five years thereafter for $25 per share plus all declared and unpaid dividends to the date fixed for redemption or are convertible to Series K First Preferred Shares at the option of the holders on December 31, 2013 and on December 31 every five years thereafter. Transaction costs incurred in connection with the Series J issue of $7 ($5 after-tax) were charged to surplus.

The Series D, 4.70% Non-Cumulative First Preferred Shares are redeemable at the option of the Company on or after March 31, 2009 for $25 per share plus a premium if the shares are redeemed before March 31, 2011 or are convertible to variable amount of common shares of the Company at the option of the Company on or after March 31, 2009, and are convertible to a variable amount of common shares of the Company at the option of the holder on or after March 31, 2014.

The Series E, 4.80% Non-Cumulative First Preferred Shares are redeemable at the option of the Company on or after September 30, 2009 for $25 per share plus a premium if the shares are redeemed before September 30, 2012 or are convertible to a variable amount of common shares of the Company at the option of the Company on or after September 30, 2009, and are convertible to a variable amount of common shares of the Company at the option of the holder on or after September 30, 2013.

The Series F, 5.90% Non-Cumulative First Preferred Shares are redeemable at the option of the Company on or after September 30, 2008 for $25 per share plus a premium if the shares are redeemed before September 30, 2012.

The Series G, 5.20% Non-Cumulative First Preferred Shares are redeemable at the option of the Company on or after December 31, 2009 for $25 per share plus a premium if the shares are redeemed before December 31, 2013.

The Series H, 4.85% Non-Cumulative First Preferred Shares are redeemable at the option of the Company on or after September 30, 2010 for $25 per share plus a premium if the shares are redeemed before September 30, 2014.

The Series I, 4.50% Non-Cumulative First Preferred Shares are redeemable at the option of the Company on or after June 30, 2011, for $25 per share plus a premium if the shares are redeemed before June 30, 2015.

On November 26, 2008, the Company announced a Normal Course Issuer Bid commencing December 1, 2008 and terminating November 30, 2009 to purchase for cancellation up to but not more than 6,000,000 common shares.

During 2006, the Company announced a Normal Course Issuer Bid commencing December 1, 2006 and terminating November 30, 2007 to purchase for cancellation up to but not more than 790,000 Non-Cumulative First Preferred Shares, Series D, and 2,000,000 Non-Cumulative First Preferred Shares, Series E. During 2007, 40,400 Preferred Shares Series D, were purchased pursuant to the Company's Normal Course Issuer Bid for a total cost of $1 or an average of $25.77 per share.

Common Shares

On December 30, 2008, for general corporate purposes and to augment the Company's current liquidity position, 28,920,000 common shares were issued from treasury to the public and 19,280,000 common shares were issued via private placement to Power Financial Corporation for an aggregate value of $1,000 or $20.75 per share. Transaction costs incurred in connection with the common share issue of $24 ($16 after-tax) were charged to surplus.

16. Capital Management

At the holding company level, the Company monitors the amount of consolidated capital available, and the amounts deployed in its various operating subsidiaries. The amount of capital deployed in any particular company or country is dependent upon local regulatory requirements as well as the Company's internal assessment of capital requirements in the context of its operational risks and requirements, and strategic plans.

Since the timing of available funds cannot always be matched precisely to commitments, imbalances may arise when demands for funds exceed those on hand. Also, a demand for funds may arise as a result of the Company taking advantage of current investment opportunities. The sources of the funds that may be required in such situations include bank financing and the issuance of debentures and equity securities.

The Company's practice is to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate.

In Canada, the OSFI has established a capital adequacy measurement for life insurance companies incorporated under the Insurance Companies Act (Canada) and their subsidiaries, known as the Minimum Continuing Capital and Surplus Requirements (MCCSR).

For Canadian regulatory reporting purposes, capital is defined by OSFI in its MCCSR guideline.

The following table provides the MCCSR information and ratios for Great-West Life:

	2008	2007
Capital Available:		
Tier 1 Capital		
Common shares (1)	$ 6,116	$ 6,116
Shareholder surplus	5,604	4,672
Qualifying non-controlling interests	150	152
Innovative instruments	648	636
Other Tier 1 Capital Elements	1,513	1,337
Gross Tier 1 Capital	14,031	12,913
Deductions from Tier 1:		
Goodwill & intangible assets in excess of limit	5,673	5,724
Other deductions	1,697	1,219
Net Tier 1 Capital	6,661	5,970
Tier 2 Capital		
Tier 2A	345	456
Tier 2B allowed	300	502
Tier 2C	1,550	1,262
Tier 2 Capital Allowed	2,195	2,220
Total Tier 1 and Tier 2 Capital	8,856	8,190
Less: Deductions/Adjustments	124	101
Total Available Capital	$ 8,732	$ 8,089
Capital Required:		
Assets Default & market risk	$ 1,510	$ 1,457
Insurance Risks	1,800	1,675
Interest Rate Risks	803	888
Other	50	(76)
Total Capital Required	$ 4,163	$ 3,944
MCCSR ratios:		
Tier 1	160%	151%
Total	210%	205%

(1) The $1,230 of common and preferred share capital that was raised by the Company in the fourth quarter remained at the holding company as at December 31, 2008.

In the United States, GWL&A is subject to comprehensive state and federal regulation and supervision throughout the United States. The National Association of Insurance Commissioners (NAIC) has adopted risk-based capital rules and other financial ratios for U.S. life insurance companies. At the end of 2008 the risk-based capital (RBC) ratio for GWL&A was 406%, in excess of that required by NAIC.

As at December 31, 2008 and 2007 the Company maintained capital levels above the minimum local requirements in its other foreign operations.

The Company is both a user and a provider of reinsurance, including both traditional reinsurance, which is undertaken primarily to mitigate against assumed insurance risks, and financial or finite reinsurance, under which the amount of insurance risk passed to the reinsurer or its reinsureds may be more limited.

The capitalization of the Company and its operating subsidiaries will also take into account the views expressed by the various credit rating agencies that provide financial strength and other ratings to the Company.

The Company has also established policies and procedures designed to identify, measure and report all material risks. Management is responsible for establishing capital management procedures for implementing and monitoring the capital plan. The Board of Directors reviews and approves all capital transactions undertaken by management.

17. Stock Based Compensation

(a) The Company has a stock option plan (the Plan) pursuant to which options to subscribe for common shares of Lifeco may be granted to certain officers and employees of Lifeco and its affiliates. The Company's Compensation Committee (the Committee) administers the Plan and, subject to the specific provisions of the Plan, fixes the terms and conditions upon which options are granted. The exercise price of each option granted under the Plan is fixed by the Committee, but cannot under any circumstances be less than the weighted-average trading price per Lifeco common share on the Toronto Stock Exchange for the five trading days preceding the date of the grant. Termination of employment may, in certain circumstances, result in forfeiture of the options, unless otherwise determined by the Committee.

To date, four categories of options have been granted under the Plan. The exercise of the options in three of these four categories is subject to the attainment of certain financial targets by certain of the Company's subsidiaries. In two of these categories the financial targets have been attained. All of the options have a maximum exercise period of ten years. The maximum number of Lifeco common shares that may be issued under the Plan is currently 52,600,000.

The following table summarizes the status of, and changes in, options outstanding and the weighted-average exercise price:

	2008		2007	
	Options	**Weighted-average exercise price**	Options	Weighted-average exercise price
Outstanding, beginning of year	**15,156,685**	**$ 21.26**	15,996,935	$ 17.96
Granted	**4,158,270**	**30.76**	1,913,000	37.06
Exercised	**(1,920,866)**	**13.24**	(2,609,850)	12.25
Forfeited	**(153,624)**	**33.57**	(143,400)	27.97
Outstanding, end of year	**17,240,465**	**$ 24.33**	15,156,685	$ 21.26
Options exercisable at end of year	**10,048,715**	**$ 18.89**	10,842,185	$ 17.19

The weighted average fair value of options granted during 2008 was $3.11 per option ($7.41 per option granted during 2007). The fair value of each option was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions used for those options granted in 2008 and 2007 respectively: dividend yield 3.80% (2.85%), expected volatility 13.78% (19.17%), risk-free interest rate 3.36% (4.03%), and expected life of 7 years (8 years).

In accordance with the fair value based method of accounting, compensation expense of $11 after-tax in 2008 ($8 in 2007) has been recognized in the Summaries of Consolidated Operations.

The following table summarizes information on the ranges of exercise prices including weighted-average remaining contractual life at December 31, 2008:

	Outstanding			Exercisable		
Exercise price ranges	Options	Weighted-average remaining contractual life	Weighted-average exercise price	Options	Weighted-average exercise price	Expiry
$11.93 – $13.63	135,650	0.23	13.32	135,650	13.32	2009
$11.14 – $13.22	3,458,176	1.50	12.73	3,458,176	12.73	2010
$17.14 – $17.70	1,279,044	3.85	17.20	1,279,044	17.20	2011
$17.20	57,000	3.58	17.20	57,000	17.20	2012
$18.84 – $20.83	2,838,825	4.47	19.38	2,777,225	19.38	2013
$24.17 – $26.00	733,000	5.36	25.24	637,200	25.23	2014
$28.26 – $29.84	2,766,700	6.95	29.75	1,628,700	29.75	2015
$35.36 – $37.22	1,813,800	8.20	37.05	75,720	37.06	2017
$28.59 – $31.27	4,158,270	7.26	30.76	–	–	2018

(b) Effective September 25, 2007, Putnam sponsored the Putnam Investments, LLC Equity Incentive Plan (the EIP). Under the terms of the EIP, Putnam is authorized to grant or sell Class B Shares of Putnam LLC (the Putnam Class B Shares), subject to certain restrictions and to grant options to purchase Putnam Class B Shares (collectively, the Awards) to certain senior management and key employees of Putnam. Holders of Putnam Class B Shares are not entitled to vote and have no rights to convert their shares into any other securities. The number of Putnam Class B Shares that may be subject to Awards under the EIP is limited to 10,000,000.

During 2008, Putnam LLC granted 3,596,437 and 1,179,802 restricted Class B common shares and Class B stock options to certain members of senior management and key employees. Compensation expense recorded for the year ended December 31, 2008 related to restricted Class B common shares and Class B stock options earned was $12.

Also refer to note 14(b).

18. Pension Plans and Other Post-Retirement Benefits

The Company's subsidiaries maintain contributory and non-contributory defined benefit pension plans for certain employees and advisors. The Company's subsidiaries also maintain defined contribution pension plans for certain employees and advisors.

The defined benefit pension plans provide pensions based on length of service and final average pay. Certain pension payments are indexed either on an ad hoc basis or a guaranteed basis. The determination of the accrued benefit obligation reflects only pension benefits guaranteed under the terms of the plans. As future salary levels affect the amount of future employee benefits, the projected benefit method prorated on service has been used to determine the accrued benefit obligation. The assets supporting the funded pension plans are held in separate trusteed pension funds and are valued at fair value. The obligations for the unfunded plans are included in other liabilities and are supported by general assets. The recognized current cost of pension benefits is charged to earnings.

The defined contribution pension plans provide pension benefits based on accumulated employee and Company contributions. Company contributions to these plans are a set percentage of employees' annual income and may be subject to certain vesting requirements. In mid-2007, the Company acquired Putnam that provides a defined contribution pension plan to its employees. Accordingly, the Company contributions to defined contribution pension plans in 2008 are greater than in 2007.

The Company's subsidiaries also provide post-retirement health, dental and life insurance benefits to eligible employees, advisors and their dependents. Retirees share in the cost of benefits through deductibles, co-insurance and caps on benefits. As the amount of some of the post-retirement benefits other than pensions depend on future salary levels and future cost escalation, the projected benefit method prorated on services has been used to determine the accrued benefit obligation. These post-retirement benefits are not pre-funded and the amount of the obligation for these benefits is included in other liabilities and is supported by general assets. The recognized current cost of post-retirement non-pension benefits is charged to earnings.

Past service costs for pension plans and other post-retirement benefits are amortized over the period in which the economic benefit is realized, usually over the expected average remaining service life of the affected employee/advisor group. Transitional assets and transitional obligations are amortized over the expected average remaining service life of the employee/advisor group. Prior years' cumulative experience gains or losses in excess of the greater of 10% of the beginning of year plan assets and accrued benefit obligation are amortized over the expected average remaining service life of the employee/advisor group.

In 2008, a subsidiary of the Company divested a portion of its business. As a result, all of the subsidiary's defined benefit plans were partially curtailed. In accordance with accounting standards, the financial effect of the curtailment was reflected as part of the sale rather than as part of the pension and benefits expense.

Subsidiaries of the Company have declared partial windups in respect of certain defined benefit pension plans, the impact of which has not been reflected in the pension plan accounts.

18. Pension Plans and Other Post-Retirement Benefits (cont'd)

The following tables reflect the financial information on the Company's contributory and non-contributory defined benefit and defined contribution pension plans at December 31, 2008 and 2007:

(a) Plan Assets, Benefit Obligation and Funded Status

	Defined benefit pension plans		Other post-retirement benefits	
	2008	2007	2008	2007
Change in Plan Assets				
Fair value of assets, beginning of year	$ 3,142	$ 3,218	$ –	$ –
Employee contributions	15	13	–	–
Employer contributions	44	29	16	17
Return on plan assets	(465)	116	–	–
Benefits paid	(149)	(136)	(16)	(17)
Acquisitions	–	2	–	–
Foreign exchange rate changes	52	(100)	–	–
Fair value of assets, end of year	$ 2,639	$ 3,142	$ –	$ –
Change in Accrued Benefit Obligation				
Accrued benefit obligation, beginning of year	$ 2,784	$ 3,031	$ 379	$ 398
Reclassification of liability	14	13	–	–
Employer current service cost	62	74	3	5
Employee contributions	15	13	–	–
Interest on accrued benefit obligation	160	151	21	20
Actuarial (gains) losses	(364)	(241)	(65)	(26)
Benefits paid	(149)	(136)	(16)	(17)
Past service cost	(1)	(6)	–	–
Curtailments and settlements	(18)	–	(10)	–
Acquisitions	–	9	–	4
Special termination benefits	2	–	–	–
Foreign exchange rate changes	76	(124)	5	(5)
Accrued benefit obligation, end of year	$ 2,581	$ 2,784	$ 317	$ 379
Net funded status	$ 58	$ 358	$ (317)	$ (379)
Employer contributions after measurement date	21	2	1	1
Unamortized past service costs (credits)	(125)	(135)	(62)	(89)
Unamortized net losses (gains)	254	(55)	(34)	38
Unamortized transitional obligation	2	3	–	–
Valuation allowance	(74)	(56)	–	–
Accrued benefit asset (liability)	$ 136	$ 117	$ (412)	$ (429)
Recorded in:				
Other assets	$ 274	$ 228	$ –	$ –
Other liabilities	(138)	(111)	(412)	(429)
Accrued benefit asset (liability)	$ 136	$ 117	$ (412)	$ (429)
Plans with accrued benefit obligations in excess of plan assets (1):				
Plans With Plan Assets				
Fair value of plan assets	$ 518	$ 583		
Accrued benefit obligation	(675)	(671)		
Plan deficit	$ (157)	$ (88)		
Plans Without Plan Assets				
Accrued benefit obligation – Plan deficit	$ (188)	$ (185)	$ (317)	$ (379)

(1) The above plans' assets and accrued benefit obligations are disclosed separately as the accrued benefit obligations exceed the fair value of the plans' assets. These amounts have been included in previously aggregated results.

(b) Benefit Expense and Cash Payments

	All pension plans		Other post-retirement benefits	
	2008	2007	2008	2007
Costs Recognized				
Amounts arising from events in the period				
Defined benefit service cost	$ 77	$ 87	$ 3	$ 5
Defined contribution service cost	35	22	–	–
Employee contributions	(15)	(13)	–	–
Employer service cost	97	96	3	5
Past service cost	(1)	(6)	–	–
Interest cost on accrued benefit obligation	160	151	21	20
Actual return on plan assets	465	(116)	–	–
Actuarial (gain) loss on accrued benefit obligation	(364)	(241)	(65)	(26)
Cost incurred	357	(116)	(41)	(1)
Adjustments to reflect costs recognized				
Difference between actual and expected return on plan assets	(670)	(94)	–	–
Difference between actuarial gains (losses) arising during the period and actuarial gains (losses) amortized	357	248	66	30
Amortization of transitional obligations	1	1	–	–
Difference between past service costs arising in period and past service costs amortized	(10)	(4)	(9)	(12)
Decrease in valuation allowance	18	–	–	–
Net benefit cost recognized for the period	$ 53	$ 35	$ 16	$ 17
Cash payments				
Contributions – Funded defined benefit plans	$ 46	$ 17	$ –	$ –
– Funded defined contribution plans	35	22	–	–
Benefits paid for unfunded plans	17	8	16	16
Total cash payment	$ 98	$ 47	$ 16	$ 16

(c) Measurement and Valuation

Measurement date is November 30. The dates of actuarial valuations for funding purposes for the funded defined benefit pension plans (weighted by accrued benefit obligation) are:

Most recent valuation	% of plans	Next required valuation	% of plans
December 31, 2005	21%	December 31, 2008	40%
December 31, 2006	30%	December 31, 2009	30%
April 1, 2007	5%	April 1, 2010	5%
December 31, 2007	44%	December 31, 2010	25%

The fair value of assets is used to determine the expected return on assets.

(d) Asset Allocation by Major Category Weighted by Plan Assets

	Defined benefit pension plans	
	2008	2007
Equity securities	44%	52%
Debt securities	41%	37%
Real estate	5%	5%
Cash and cash equivalents	10%	6%
	100%	100%

No plan assets are directly invested in the Company's or related parties' securities. Nominal amounts may be invested in the Company's or related parties' securities through investment in pooled funds.

18. Pension Plans and Other Post-Retirement Benefits (cont'd)

(e) Significant Weighted Average Assumptions

Significant assumptions

	Defined benefit pension plans		Other post-retirement benefits	
	2008	2007	2008	2007
To determine benefit cost:				
Discount rate	5.9%	5.1%	5.8%	5.1%
Expected long-term rate of return on plan assets	6.6%	6.7%	–	–
Rate of compensation increase	4.2%	4.1%	4.2%	4.2%
To determine accrued benefit obligation:				
Discount rate	6.8%	5.9%	7.1%	5.8%
Rate of compensation increase	4.2%	4.2%	3.9%	4.2%
Health care trend rates:				
Initial health care trend rate			7.2%	6.6%
Ultimate health care trend rate			5.0%	4.8%
Year ultimate trend rate is reached			2012	2012

(f) Impact of Changes to Assumed Health Care Rates – Other Post-Retirement Benefits

	1% increase		1% decrease	
	2008	2007	2008	2007
Impact on accrued benefit obligation	$ 28	$ 40	$ (23)	$ (33)
Impact on service and interest cost	$ 3	$ 3	$ (2)	$ (2)

19. Earnings per Common Share

The following table provides the reconciliation between basic and diluted earnings per common share:

	2008	2007
(a) Earnings		
Net income from continuing operations	$ 761	$ 1,908
Net income from discontinued operations	692	203
Net income	$ 1,453	$ 2,111
Perpetual preferred share dividends	57	55
Net income – common shareholders	$ 1,396	$ 2,056
(b) Number of common shares		
Average number of common shares outstanding	894,849,384	892,227,627
Add:		
– Potential exercise of outstanding stock options	3,804,656	6,702,666
Average number of common shares outstanding – diluted basis	898,654,040	898,930,293
Basic earnings per common share		
From continuing operations	$ 0.787	$ 2.076
From discontinued operations	0.773	0.228
	$ 1.560	$ 2.304
Diluted earnings per common share		
From continuing operations	$ 0.783	$ 2.061
From discontinued operations	0.770	0.226
	$ 1.553	$ 2.287

20. Accumulated Other Comprehensive Income (Loss)

	2008					
	Unrealized foreign exchange gains (losses) on translation of foreign operations	Unrealized gains (losses) on available-for-sale assets	Unrealized gains (losses) on cash flow hedges	Total	Non-controlling interest	Shareholder
Balance, beginning of year	$ (1,801)	$ 174	$ 13	$ (1,614)	$ 81	$ (1,533)
Other comprehensive income (loss)	1,197	(311)	(324)	562	(28)	534
Income tax	(1)	101	114	214	(2)	212
	1,196	(210)	(210)	776	(30)	746
Balance, end of year	$ (605)	$ (36)	$ (197)	$ (838)	$ 51	$ (787)

	2007					
	Unrealized foreign exchange gains (losses) on translation of foreign operations	Unrealized gains (losses) on available-for-sale assets	Unrealized gains (losses) on cash flow hedges	Total	Non-controlling interest	Shareholder
Balance, beginning of year	$ (591)	$ –	$ –	$ (591)	$ 44	$ (547)
Opening transition adjustment	–	379	–	379	(19)	360
Income tax	–	(108)	–	(108)	5	(103)
	–	271	–	271	(14)	257
Other comprehensive income (loss)	(1,210)	(132)	19	(1,323)	56	(1,267)
Income tax	–	35	(6)	29	(5)	24
	(1,210)	(97)	13	(1,294)	51	(1,243)
Balance, end of year	$ (1,801)	$ 174	$ 13	$ (1,614)	$ 81	$ (1,533)

21. Related Party Transactions

In the normal course of business, Great-West Life provided insurance benefits to other companies within the Power Financial Corporation, Lifeco's parent, group of companies. In all cases, transactions were at market terms and conditions.

During the year, Great-West Life provided to and received from IGM Financial Inc. and its subsidiaries (IGM), a member of the Power Financial Corporation group of companies, certain administrative services. Great-West Life also provided life insurance, annuity and disability insurance products under a distribution agreement with IGM. London Life provided distribution services to IGM. All transactions were provided on terms and conditions at least as favourable as market terms and conditions.

At December 31, 2008 the Company held $36 ($13 in 2007) of debentures issued by IGM.

During 2008, Great-West Life, London Life, and segregated funds maintained by London Life purchased residential mortgages of $144 from IGM ($154 in 2007). Great-West Life, London Life and Canada Life sold residential mortgages of $3 ($4 in 2007) to segregated funds maintained by Great-West Life and $66 ($98 in 2007) to segregated funds maintained by London Life. All transactions were at market terms and conditions.

22. Income Taxes

(a) Future income taxes consist of the following taxable temporary differences on:

	2008	2007
Policy liabilities	$ 433	$ 557
Portfolio investments	(305)	35
Other	1,229	(334)
Future income taxes receivable (payable)	$ 1,357	$ 258
Recorded in:		
Other assets	$ 1,674	$ 530
Other liabilities	(317)	(272)
	$ 1,357	$ 258

GREAT-WEST LIFECO INC.

22. Income Taxes (cont'd)

Other assets above includes $818 related to the goodwill and intangible impairment charge recorded in the fourth quarter of 2008 by a subsidiary in the United States. As part of the intangible and goodwill testing, the future tax asset in the United States subsidiary was evaluated, and it was concluded that a valuation allowance was not required based upon the 20 year carryforward of this amount combined with tax planning opportunities.

(b) The Company's effective income tax rate is derived as follows:

	2008		2007	
Combined basic Canadian federal and provincial tax rate	$ 122	32.5 %	$ 927	35.0%
Increase (decrease) in the income tax rate resulting from:				
Non-taxable investment income	(136)	(36.2)	(159)	(6.0)
Lower effective tax rates on income not subject to tax in Canada	(217)	(57.9)	(159)	(6.0)
Miscellaneous	(48)	(12.7)	(50)	(1.9)
Impact of rate changes on future income taxes	1	0.2	23	0.9
Effective income tax rate applicable to current year	$ (278)	(74.1)%	$ 582	22.0%

The effective tax rate of (74.1)% would be 21.1% excluding the impact of the goodwill and intangible impairment charge described in note 7.

In conjunction with the goodwill and intangible impairment charge, the company also wrote off a future tax asset with regards to State taxes in the amount of $34 ($28 U.S.). This amount is included in miscellaneous.

At December 31, 2008, the Company has tax loss carryforwards totalling $4,552 ($2,735 in 2007). Of this amount, $1,969 expire between 2009 and 2028, while $2,583 have no expiry date. The future tax benefit of these loss carryforwards has been recognized, to the extent that they are more likely than not to be realized, in the amount of $1,325 ($743 in 2007) in future tax assets. The Company will realize this benefit in future years through a reduction in current income taxes payable.

23. Derivative Financial Instruments

In the normal course of managing exposure to fluctuations in interest and foreign exchange rates, and to market risks, the Company is an end user of various derivative financial instruments. It is the Company's policy to transact in derivatives only with the most creditworthy financial intermediaries. Note 5 illustrates the credit quality of the Company's exposure to counterparties.

(a) The following table summarizes the Company's derivative portfolio and related credit exposure:

2008	Notional amount	Maximum credit risk*	Future credit exposure	Credit risk equivalent	Risk weighted equivalent
Interest rate contracts					
Futures – long	$ 119	$ –	$ –	$ –	$ –
Futures – short	99	–	–	–	–
Swaps	2,426	380	18	398	75
Options purchased	308	54	5	59	12
	2,952	434	23	457	87
Foreign exchange contracts					
Forward contracts	141	2	1	3	1
Cross-currency swaps	6,692	215	464	679	134
	6,833	217	465	682	135
Other derivative contracts					
Equity contracts	89	1	5	6	1
Credit default swaps	67	–	–	–	2
	156	1	5	6	3
	$ 9,941	$ 652	$ 493	$ 1,145	$ 225

*Maximum credit risk does not include collateral paid of $25.

2007	Notional amount	Maximum credit risk*	Future credit exposure	Credit risk equivalent	Risk weighted equivalent
Interest rate contracts					
Futures – long	$ 190	$ –	$ –	$ –	$ –
Futures – short	47	–	–	–	–
Interest rate swaps	2,346	136	19	155	41
Options purchased	536	38	8	46	9
	3,119	174	27	201	50
Foreign exchange contracts					
Forward contracts	1,486	8	15	23	5
Cross-currency swaps	5,539	791	383	1,174	229
	7,025	799	398	1,197	234
Other derivative contracts					
Equity contracts	131	–	7	7	2
Credit default swaps	55	–	–	–	1
	186	–	7	7	3
	$ 10,330	$ 973	$ 432	$ 1,405	$ 287

*Maximum credit risk does not include a reduction for collateral received of $49.

The following table provides the notional amount, term to maturity and estimated fair value of the Company's derivative portfolio by category:

2008	Notional amount: 1 year or less	Notional amount: 1–5 years	Notional amount: Over 5 years	Total	Total estimated fair value
Derivatives not designated as accounting hedges					
Interest rate contracts					
Futures – long	$ 119	$ –	$ –	$ 119	$ –
Futures – short	39	–	–	39	–
Swaps	751	699	898	2,348	313
Options purchased	–	–	308	308	54
	909	699	1,206	2,814	367
Foreign exchange contracts					
Forward contracts	141	–	–	141	2
Cross-currency swaps	234	898	4,060	5,192	(508)
	375	898	4,060	5,333	(506)
Other derivative contracts					
Equity contracts	61	17	11	89	(18)
Credit default swaps	67	–	–	67	(2)
	128	17	11	156	(20)
	1,412	1,614	5,277	8,303	(159)
Cash flow hedges					
Interest rate contracts					
Swaps	–	–	78	78	32
Foreign exchange contracts					
Cross-currency swaps	–	–	1,500	1,500	(340)
Fair value hedges					
Interest rate contracts					
Futures – short	60	–	–	60	–
Total	$ 1,472	$ 1,614	$ 6,855	$ 9,941	$ (467)

23. Derivative Financial Instruments (cont'd)

2007	Notional amount 1 year or less	1–5 years	Over 5 years	Total	Total estimated fair value
Derivatives not designated as accounting hedges					
Interest rate contracts					
Futures – long	$ 160	$ –	$ –	$ 160	$ –
Futures – short	47	–	–	47	–
Interest rate swaps	808	471	558	1,837	127
Options purchased	–	–	536	536	38
	1,015	471	1,094	2,580	165
Foreign exchange contracts					
Forward contracts	38	–	–	38	–
Cross-currency swaps	123	934	3,472	4,529	736
	161	934	3,472	4,567	736
Other derivative contracts					
Equity contracts	95	15	21	131	(36)
Credit default swaps	–	55	–	55	–
	95	70	21	186	(36)
	1,271	1,475	4,587	7,333	865
Cash flow hedges					
Interest rate contracts					
Futures – long	30	–	–	30	–
Interest rate swaps	–	–	509	509	(16)
	30	–	509	539	(16)
Foreign exchange contracts					
Cross-currency swaps	10	–	1,000	1,010	30
	40	–	1,509	1,549	14
Net investment hedges					
Foreign exchange contracts					
Forward contracts	1,448	–	–	1,448	(18)
Total	$ 2,759	$ 1,475	$ 6,096	$ 10,330	$ 861

(b) ***Interest Rate Contracts***

Interest rate swaps, futures and options are used as part of a portfolio of assets to manage interest rate risk associated with actuarial liabilities. Interest rate swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which payments are based. Written call options are used with interest rate swaps to effectively convert convertible, fixed rate bonds to non-convertible variable rate securities as part of the Company's overall asset/liability matching program. The written call option hedges the Company's exposure to the convertibility feature on the bonds.

Foreign Exchange Contracts

Cross-currency swaps are used in combination with other investments to manage foreign currency risk associated with actuarial liabilities. Under these swaps principal amounts and fixed or floating interest payments may be exchanged in different currencies. The Company also enters into certain foreign exchange forward contracts to hedge certain product liabilities and to hedge a portion of the translation of the net investment in its foreign operations.

Other Derivative Contracts

Equity index swaps, futures and options are used to hedge certain product liabilities. Equity index swaps are also used as substitutes for cash instruments and are used to hedge the market risk associated with certain fee income.

The Company uses credit derivatives to manage its credit exposures and for risk diversification in its investment portfolio.

24. Reinsurance Transactions

(a) On February 14, 2008, the Company's indirect wholly-owned Irish reinsurance subsidiary, Canada Life International Re Limited, signed an agreement with Standard Life Assurance Limited, a U.K. based provider of life, pension and investment products, to assume by way of indemnity reinsurance, a large block of U.K. payout annuities. The reinsurance transaction increased premium income, paid or credited to policyholders, funds held by ceding insurers and policy liabilities by $12.5 billion.

(b) During 2008, the Company's indirect wholly-owned U.K. subsidiary, Canada Life Limited, entered into two agreements with two financial institutions to provide long-term mortality exposure management on an in-force block of payout annuity business representing $2.8 billion of actuarial liabilities. These agreements exchange variable annuitant payments for a schedule of fixed payments. One of the agreements has no end date while the other matures in 40 years.

(c) During 2007, Great-West Life and London Life recaptured the remaining 50% of a reinsurance agreement on certain blocks of group life and long-term disability business. The recaptured premiums of $1,574 associated with the transaction have been recorded in the Summaries of Consolidated Operations as an increase to premium income with a corresponding increase to the change in actuarial liabilities and provision for claims. For the Consolidated Balance Sheets, this transaction resulted in a reduction of $1,831 to funds held under reinsurance contracts with a corresponding increase in policyholder liabilities.

25. Contingent Liabilities

The Company and its subsidiaries are from time to time subject to legal actions, including arbitrations and class actions, arising in the normal course of business. It is not expected that any of the existing legal actions will have a material adverse effect on the consolidated financial position of the Company.

In addition, there are class proceedings in Ontario regarding the participation of the London Life and Great-West Life participating accounts in the financing of the acquisition of LIG in 1997 by Great-West Life. It is difficult to predict the outcome of these proceedings with certainty. However, based on information presently known, these proceedings are not expected to have a material adverse effect on the consolidated financial position of the Company.

Subsidiaries of the Company have declared partial windups in respect of certain Ontario defined benefit pension plans which will not likely be completed for some time. The partial windups could involve the distribution of the amount of actuarial surplus, if any, attributable to the wound up portion of the plans. However, many issues remain unclear, including the basis of surplus measurement and entitlement, and the method by which any surplus distribution would be implemented. In addition to the regulatory proceedings involving these partial windups, related proposed class action proceedings have been commenced in Ontario related to certain of the partial windups. In the third quarter, 2007 the Company's subsidiaries established provisions for certain Canadian retirement plans in the amounts of $97 after-tax. Actual results could differ from these estimates.

A subsidiary of the Company is involved in an ongoing arbitration relating to the interpretation of certain provisions of reinsurance treaties. In addition, certain reinsurance client loss statements relating to other reinsurance treaties are in dispute and may become subject to arbitration or other legal action in the future. While there is retrocession coverage in place for these other treaties, payment of amounts due under these retrocession treaties is contingent upon collection by the retrocessionaire under a separate financial arrangement with another party. We understand that the provisions of this separate financial arrangement are also in dispute. The Company's subsidiary has established an actuarial provision for these two matters. Based on information presently known, it is difficult to predict the outcome of these matters with certainty. These matters are not expected to have a material adverse effect on the consolidated financial position of the Company.

Legal proceedings have been commenced against a private equity vehicle in which subsidiaries of the Company have an ownership interest. Another subsidiary of the Company has established a provision related to these legal proceedings. Actual results could differ from these estimates. These proceedings are in their early stages and it is difficult to predict the outcome with certainty. Based on information presently known, these proceedings are not expected to have a material adverse effect on the consolidated financial position of the Company.

In connection with the acquisition of its subsidiary Putnam, the Company has an indemnity from a third party against liabilities arising from certain litigation and regulatory actions involving Putnam. Putnam continues to have potential liability for these matters in the event the indemnity is not honoured. The Company expects the indemnity will continue to be honoured and that any liability of Putnam would not have a material adverse effect on the consolidated financial position of the Company.

26. Commitments

(a) Syndicated Letters of Credit

Clients residing in the United States are required pursuant to their insurance laws to obtain letters of credit issued on LRG's behalf from approved banks in order to further secure LRG's obligations under certain reinsurance contracts.

LRG has a syndicated letter of credit facility providing U.S. $650 in letters of credit capacity. The facility was arranged in 2005 for a five year term expiring November 15, 2010. Under the terms and conditions of the facility, collateralization may be required if a default under the letter of credit agreement occurs. LRG has issued U.S. $622 in letters of credit under the facility as at December 31, 2008 (U.S. $591 at December 31, 2007).

26. Commitments (cont'd)

In addition, LRG has other bilateral letter of credit facilities totalling U.S. $18 (2007 – U.S. $18). LRG has issued U.S. $7 in letters of credit under these facilities as at December 31, 2008.

(b) Other Letters of Credit

Canada Life issues letters of credit in the normal course of business. Letters of credit in the amount of $1 were outstanding at December 31, 2008 ($1 at December 31, 2007), none of which have been drawn upon at that date.

(c) Lease Obligations

The Company enters into operating leases for office space and certain equipment used in the normal course of operations. Lease payments are charged to operations over the period of use. The future minimum lease payments in aggregate and by year are as follows:

	2009	2010	2011	2012	2013	2014 and thereafter	Total
Future lease payments	$ 113	91	73	63	50	207	$ 597

27. Segmented Information

In Canada, Great-West Life and its operating subsidiaries, London Life and Canada Life offer a broad portfolio of financial and benefit plan solutions for individuals, families, businesses and organizations, through a network of Freedom 55 Financial and Great-West Life financial security advisors, and through a multi-channel network of brokers, advisors and financial institutions.

In the United States, GWL&A is a leader in meeting the retirement income needs of employees in the public/non-profit and corporate sectors. It serves its customers nationwide through a range of financial products and services marketed through brokers, consultants and group representatives, and through partnerships with other financial institutions. Putnam provides investment management, certain administrative functions, distribution, and related services through a broad range of investment products, including the Putnam Funds, its own family of mutual funds which are offered to individual and institutional investors.

In Europe, Canada Life is broadly organized along geographically defined market segments and offers protection and wealth management products including payout annuity products, and reinsurance. The Europe segment is comprised of two distinct business units: Insurance & Annuities, which consists of operations in the United Kingdom, Isle of Man, Republic of Ireland and Germany; and Reinsurance, which operates primarily in the United States, Barbados and Ireland. Reinsurance products are provided through Canada Life, LRG and their subsidiaries.

The Lifeco Corporate segment represents the Lifeco holding company activities and transactions that are not directly attributable to measurement of the business segments of the Company.

(a) Consolidated Operations

	2008				
	Canada	United States	Europe	Lifeco Corporate	Total
Income:					
Premium income	$ 8,197	$ 2,683	$ 19,127	$ –	$ 30,007
Net investment income					
Regular net investment income	2,367	1,345	2,262	(12)	5,962
Changes in fair value on held for trading assets	(2,168)	(1,286)	(1,707)	–	(5,161)
Total net investment income	199	59	555	(12)	801
Fee and other income	1,034	1,442	648	–	3,124
Total income	9,430	4,184	20,330	(12)	33,932
Benefits and expenses:					
Paid or credited to policyholders	5,748	2,366	18,660	–	26,774
Other	2,189	1,535	759	11	4,494
Amortization of finite life intangible assets	14	23	4	–	41
Restructuring costs	–	70	–	–	70
Intangible and goodwill impairment	–	2,178	–	–	2,178
Net operating income before income taxes	1,479	(1,988)	907	(23)	375
Income taxes	360	(799)	164	(3)	(278)
Net income before non-controlling interests	1,119	(1,189)	743	(20)	653
Non-controlling interests	73	(184)	3	–	(108)
Net income from continuing operations	1,046	(1,005)	740	(20)	761
Net income from discontinued operations	–	692	–	–	692
Net income	1,046	(313)	740	(20)	1,453
Perpetual preferred share dividends	43	–	14	–	57
Net income – common shareholders	$ 1,003	$ (313)	$ 726	$ (20)	$ 1,396

	2007				
	Canada	United States	Europe	Lifeco Corporate	Total
Income:					
Premium income	$ 8,916	$ 1,910	$ 7,927	$ –	$ 18,753
Net investment income					
Regular net investment income	2,546	1,337	1,663	19	5,565
Changes in fair value on held for trading assets	(421)	(58)	(619)	–	(1,098)
Total net investment income	2,125	1,279	1,044	19	4,467
Fee and other income	1,029	1,001	673	–	2,703
Total income	12,070	4,190	9,644	19	25,923
Benefits and expenses:					
Paid or credited to policyholders	8,397	2,631	8,094	–	19,122
Other	2,163	1,027	768	162	4,120
Amortization of finite life intangible assets	14	14	4	–	32
Net operating income before income taxes	1,496	518	778	(143)	2,649
Income taxes	353	138	137	(46)	582
Net income before non-controlling interests	1,143	380	641	(97)	2,067
Non-controlling interests	128	14	17	–	159
Net income from continuing operations	1,015	366	624	(97)	1,908
Net income from discontinued operations	–	203	–	–	203
Net income	1,015	569	624	(97)	2,111
Perpetual preferred share dividends	42	–	13	–	55
Net income – common shareholders	$ 973	$ 569	$ 611	$ (97)	$ 2,056

(b) Consolidated Total Assets

	2008			
	Canada	**United States**	**Europe**	**Total**
Assets				
Invested assets	**$ 46,240**	**$ 26,277**	**$ 30,535**	**$ 103,052**
Goodwill and intangible assets	**4,973**	**2,102**	**1,722**	**8,797**
Other assets	**1,961**	**3,544**	**12,720**	**18,225**
Total assets	**$ 53,174**	**$ 31,923**	**$ 44,977**	**$ 130,074**

	2007			
	Canada	United States	Europe	Total
Assets				
Invested assets	$ 45,148	$ 23,045	$ 31,802	$ 99,995
Assets for operations held for sale	–	697	–	697
Goodwill and intangible assets	4,966	3,519	1,727	10,212
Other assets	2,363	2,439	2,488	7,290
Total assets	$ 52,477	$ 29,700	$ 36,017	$ 118,194

28. Subsequent Event

On January 19, 2009, PanAgora, a subsidiary of Putnam LLC, sold its equity investment in Union PanAgora Asset Management GmbH to Union Asset Management, gross proceeds received of approximately U.S. $77 resulted in a gain to PanAgora of approximately U.S. $68 on a pre-tax basis.

GREAT-WEST LIFECO INC.

AUDITORS' REPORT

To the Shareholders of
Great-West Lifeco Inc.

We have audited the consolidated balance sheets of Great-West Lifeco Inc. as at December 31, 2008 and 2007 and the summaries of consolidated operations, the consolidated statements of surplus, the summaries of consolidated comprehensive income and the consolidated statements of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Winnipeg, Manitoba
February 12, 2009

IGM FINANCIAL INC

PART C

Please note that the bottom of each page in Part C contains two different page numbers. A page number with the prefix "C" refers to the number of such page in this document and the page number without any prefix refers to the number of such page in the original document issued by IGM Financial Inc.

The attached documents concerning IGM Financial Inc. are documents prepared and publicly disclosed by such subsidiary. Certain statements in the attached documents, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the current expectations of the subsidiary as set forth therein. Forward-looking statements are provided for the purposes of assisting the reader in understanding the subsidiary's financial position and results of operations as at and for the periods ended on certain dates and to present information about the subsidiary's management's current expectations and plans relating to the future and the reader is cautioned that such statements may not be appropriate for other purposes.

By its nature, forward-looking information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved.

For further information provided by the subsidiary as to the material factors that could cause actual results to differ materially from the content of forward-looking statements and the material factors and assumptions that were applied in making the forward-looking statements, please see the attached documents, including the section entitled Forward-Looking Statements. The reader is cautioned to consider these factors and assumptions carefully and not to put undue reliance on forward-looking statements.

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) presents management's view of the results of operations and financial condition of IGM Financial Inc. (IGM Financial or the Company) for the years ended December 31, 2008 and 2007. Commentary in the MD&A as at and for the year ended December 31, 2008 is as of February 12, 2009.

Basis of Presentation and Summary of Accounting Policies

The Consolidated Financial Statements of IGM Financial, which are the basis of the information presented in the Company's MD&A, have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are presented in Canadian dollars (Note 1 of the Consolidated Financial Statements).

Principal Holders of Voting Shares

As at December 31, 2008, Power Financial Corporation (PFC) and Great-West Lifeco Inc. (Lifeco), a subsidiary of PFC, held directly or indirectly 56.4% and 3.5%, respectively, of the outstanding common shares of IGM Financial.

FORWARD-LOOKING STATEMENTS

Certain statements in this MD&A, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect IGM Financial's current expectations. Forward-looking statements are provided for the purposes of assisting the reader in understanding the Company's financial position and results of operations as at and for the periods ended on certain dates and to present information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. These statements may include, without limitation, statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of the Company, as well as the outlook for North American and international economics, for the current fiscal year and subsequent periods. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "seeks", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could".

This information is based upon certain material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking statements, including the perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances.

By its nature, this information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved.

A variety of material factors, many of which are beyond the Company's, and its subsidiaries' control, affect the operations, performance and results of the Company, and its subsidiaries, and their businesses, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to: the impact or unanticipated impact of general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, management of market liquidity and funding risks, changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates), the effect of applying future accounting changes (including adoption of International Financial Reporting Standards), operational and reputational risks, business competition, technological change, changes in government regulations and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Company's ability to complete strategic transactions, integrate acquisitions and implement other growth strategies, and the Company's success in anticipating and managing the foregoing factors.

The reader is cautioned that the foregoing list of factors is not exhaustive of the factors that may affect any of the Company's forward-looking statements. The reader is also cautioned to consider these and other factors, uncertainties and potential events carefully and not place undue reliance on forward-looking statements.

Other than as specifically required by law, the Company undertakes no obligation to update any forward-looking statements to reflect events or circumstances after the date on which such statements are made, or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results, or otherwise.

Additional information about the risks and uncertainties of the Company's business is provided in its disclosure materials filed with the securities regulatory authorities in Canada, available at www.sedar.com.

IGM Financial Inc.
Summary of Consolidated Operating Results

Adjusted net income for the year ended December 31, 2008 was $766.1 million compared to adjusted net income of $863.8 million in 2007, a decrease of 11.3%. Adjusted diluted earnings per share were $2.89 in 2008 compared to adjusted diluted earnings per share of $3.23 in 2007, a decrease of 10.5%.

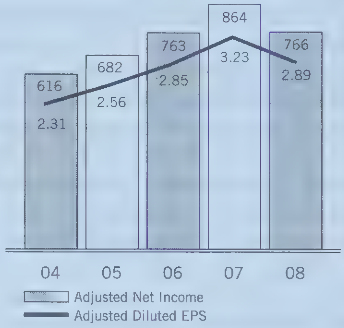
Adjusted net income in 2008 excluded items related to the Company's equity interest in Great-West Lifeco Inc.:

- A $60.3 million charge recorded in the fourth quarter representing the Company's proportionate share of Great-West Lifeco Inc.'s after-tax impairment charge related to goodwill and indefinite life intangible assets;
- A $25.0 million gain recorded in the second quarter representing the Company's proportionate share of Great-West Lifeco Inc.'s after-tax gain related to the sale of its healthcare business, Great-West Healthcare.

Adjusted net income in 2007 excluded a non-cash income tax benefit of $15.3 million recorded in the fourth quarter resulting from decreases in the federal corporate income tax rates and their effect on the future income tax liability related to indefinite life intangible assets arising from the acquisition of Mackenzie Financial Corporation in 2001.

Adjusted Net Income and Adjusted Diluted Earnings per Share

For the financial year *($ millions, except per share amounts)*



2004 excludes unitholder compensation.

2006 and 2007 exclude a non-cash income tax benefit.

2008 excludes proportionate share of affiliate's impairment charge and affiliate's gain.

TABLE 1: RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

	2008		2007		2006	
($ millions)	NET INCOME	EPS	NET INCOME	EPS	NET INCOME	EPS
Adjusted net income – Non-GAAP measure	$ 766.1	$ 2.89	$ 863.8	$ 3.23	$ 763.0	$ 2.85
Proportionate share of affiliate's impairment charge, net of tax	(60.3)	(0.23)	–	–	–	–
Proportionate share of affiliate's gain	25.0	0.10	–	–	–	–
Non-cash income tax benefit	–	–	15.3	0.06	13.7	0.05
Net income – GAAP	$ 730.8	$ 2.76	$ 879.1	$ 3.29	$ 776.7	$ 2.90
EBITDA – Non-GAAP measure	$ 1,518.1		$ 1,699.5		$ 1,535.3	
Commission amortization	(319.3)		(332.2)		(298.6)	
Amortization of capital and intangible assets	(31.6)		(25.7)		(21.7)	
Interest expense on long-term debt and dividends on preferred shares	(107.2)		(104.9)		(105.0)	
Proportionate share of affiliate's impairment charge, net of tax	(60.3)		–		–	
Income before income taxes, non-controlling interest and proportionate share of affiliate's gain	999.7		1,236.7		1,110.0	
Income taxes	(292.6)		(354.7)		(331.2)	
Non-controlling interest	(1.3)		(2.9)		(2.1)	
Proportionate share of affiliate's gain	25.0		–		–	
Net income – GAAP	$ 730.8		$ 879.1		$ 776.7	

IGM FINANCIAL INC.

Net income without adjustment for the year ended December 31, 2008 was $730.8 million compared to net income without adjustment of $879.1 million in 2007, a decrease of 16.9%. Diluted earnings per share on this basis were $2.76 in 2008 compared to $3.29 in 2007, a decrease of 16.1%.

Shareholders' equity was $4.1 billion as at December 31, 2008 compared to $4.2 billion as at December 31, 2007. Adjusted return on average common equity for the year ended December 31, 2008 was 18.2% compared with adjusted return on average common equity of 21.5% in 2007. The quarterly dividend per common share was increased to 51.25 cents in 2008 from 46.0 cents at the end of 2007.

NON-GAAP FINANCIAL MEASURES

Adjusted net income, diluted earnings per share (EPS) and return on common equity (ROE) for the year ended December 31, 2008 excluded a $60.3 million charge recorded in the fourth quarter which represented the Company's proportionate share of Lifeco's after-tax impairment charge related to goodwill and intangible assets, and a $25.0 million gain recorded in the second quarter which represented the Company's proportionate share of Lifeco's after-tax gain on the sale of its healthcare business, Great-West Healthcare. Adjusted net income, EPS and ROE for the year ended December 31, 2007 excluded a non-cash income tax benefit of $15.3 million recorded in the fourth quarter resulting from decreases in federal corporate income tax rates and their effect on the future income tax liability related to indefinite life intangible assets. Adjusted net income, EPS and ROE for the year ended December 31, 2006 also excluded a non-cash income tax benefit of $13.7 million. While these non-GAAP financial measures are used to provide management and investors with additional measures to assess earnings performance, they do not have standard meanings and are not directly comparable to similar measures used by other companies.

Earnings before interest and taxes (EBIT) and earnings before interest, taxes, depreciation and amortization (EBITDA) are also non-GAAP financial measures. EBIT and EBITDA are alternative measures of performance utilized by management, investors and investment analysts to evaluate and analyze the Company's results. EBITDA is discussed further in the Consolidated Liquidity and Capital Resources section later in this MD&A. These non-GAAP financial measures do not have standard meanings and are not directly comparable to any GAAP measure or to similar measures used by other companies.

The reconciliation of non-GAAP results to reported results in accordance with GAAP for net income, EPS and EBITDA is provided in Table 1. The reconciliation of non-GAAP results to reported results in accordance with GAAP related to EBIT is provided in Table 2.

REPORTABLE SEGMENTS

IGM Financial's reportable segments, which reflect the current organizational structure, are:

- Investors Group
- Mackenzie
- Corporate and Other

Management measures and evaluates the performance of these segments based on EBIT as shown in Table 2.

Segment operations are discussed in the Review of Segment Operating Results sections of the MD&A for both Investors Group and Mackenzie.

The Corporate and Other segment includes operating results for Investment Planning Counsel, net investment income earned on unallocated investments and other income as well as inter-segment eliminations.

Earnings before interest and taxes for Corporate and Other were $37.7 million for the year ended December 31, 2008 compared to $65.0 million in 2007. Earnings before interest and taxes related to Investment Planning Counsel were $8.5 million lower than 2007 levels due primarily to the decline in average mutual fund assets in 2008 compared with 2007 and expenses incurred in 2008 related to expansion of its distribution network. Net investment income on unallocated investments decreased by $19.3 million in 2008 compared with 2007. The Company reduced the fair value of its holdings in non-bank-sponsored asset-backed commercial paper (ABCP) by $2.5 million in each of the second and third quarters of 2008 as discussed in Note 2

to the Consolidated Financial Statements. In addition, an impairment charge of $7.5 million was recorded in the fourth quarter of 2008 related to a seed capital investment. Both lower average balances of unallocated investments and lower average interest rates accounted for the remainder of the year-over-year decline in investment income.

Certain items reflected in Table 2 are not allocated to segments:

- *Interest expense* – Represents the interest expense on the remaining debt issued pursuant to the Mackenzie acquisition and on the bridge credit facility related to the Saxon Financial Inc. (Saxon) acquisition, as well as dividends paid on the outstanding preferred shares. Interest expense totalled $69.9 million in 2008 compared with $67.6 million in 2007. Dividends paid on preferred shares were $20.7 million in both 2008 and 2007.
- *Proportionate share of affiliate's impairment charge* – In the fourth quarter of 2008, Putnam LLC, a subsidiary of Lifeco in the United States division, recorded a non-cash impairment charge on indefinite life intangibles and goodwill. In addition, Lifeco wrote off a future tax asset related to the intangible and goodwill impairment charge and recorded restructuring costs associated with Putnam LLC. The Company's proportionate share of the after-tax impairment charge and related expenses was $60.3 million.
- *Proportionate share of affiliate's gain* – In the second quarter of 2008, the Company's affiliate, Lifeco, recorded an after-tax gain on the sale of its healthcare business, Great-West Healthcare. Lifeco reported the gain in Net income from discontinued operations in the Summary of Consolidated Operations included in Lifeco's Consolidated Financial Statements. The Company's proportionate share of the after-tax gain on the sale was $25.0 million.

TABLE 2: CONSOLIDATED OPERATING RESULTS BY SEGMENT

	INVESTORS GROUP		MACKENZIE		CORPORATE & OTHER		TOTAL	
($ millions)	2008	2007	2008	2007	2008	2007	2008	2007
Fee income	$ 1,437.9	$ 1,512.4	$ 920.4	$ 1,043.4	$ 144.2	$ 145.2	$ 2,502.5	$ 2,701.0
Net investment income and other	151.2	126.2	22.7	19.9	28.3	48.0	202.2	194.1
	1,589.1	1,638.6	943.1	1,063.3	172.5	193.2	2,704.7	2,895.1
Operating expenses								
Commissions	473.4	460.1	338.8	395.3	94.1	91.7	906.3	947.1
Non-commission	317.5	293.6	289.6	292.9	40.7	36.5	647.8	623.0
	790.9	753.7	628.4	688.2	134.8	128.2	1,554.1	1,570.1
Earnings before interest and taxes	$ 798.2	$ 884.9	$ 314.7	$ 375.1	$ 37.7	$ 65.0	1,150.6	1,325.0
Interest expense							90.6	88.3
							1,060.0	1,236.7
Proportionate share of affiliate's impairment charge, net of tax							60.3	–
Income before income taxes, non-controlling interest and proportionate share of affiliate's gain							999.7	1,236.7
Income taxes							292.6	354.7
Income before non-controlling interest and proportionate share of affiliate's gain							707.1	882.0
Non-controlling interest							1.3	2.9
Net income before proportionate share of affiliate's gain							705.8	879.1
Proportionate share of affiliate's gain							25.0	–
Net income								
In accordance with GAAP							$ 730.8	$ 879.1
Adjusted net income[1]							$ 766.1	$ 863.8

(1) Refer to Summary of Consolidated Operating Results for an explanation of the Company's use of non-GAAP financial measures.

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- *Income taxes* – The effective income tax rate for the year ended December 31, 2008 was 29.3% compared with 28.7% in 2007 as shown in Table 3. The 2008 effective income tax rate was positively impacted by reductions in statutory federal and provincial corporate income tax rates. In the fourth quarter of 2008, the Company recorded a $60.3 million after-tax expense representing its proportionate share of its affiliate's impairment charge which resulted in a 1.96% increase in the effective income tax rate. The effective income tax rate in 2007 was impacted by decreases in federal corporate income tax rates and the resulting reduction in the future income tax liability related to indefinite life intangible assets arising from the acquisition of Mackenzie Financial Corporation in 2001. In 2007, the Company recorded a $15.3 million ($0.06 per share) non-cash income tax benefit in the fourth quarter which resulted in a 1.23% reduction in the effective income tax rate. The benefit of the reduction in federal and provincial corporate income tax rates on other operating future income tax assets and liabilities is reflected in the Other items line.

  Tax planning may result in the Company recording lower levels of income taxes. Management monitors the status of its income tax filings, and regularly assesses the overall adequacy of its provision for income taxes and, as a result, income taxes recorded in prior years may be adjusted in the current year. Any changes in management's best estimates are reflected in Other items, which also includes, but is not limited to, the effect of lower effective income tax rates on foreign operations.

SELECTED ANNUAL INFORMATION

Financial information for the three most recently completed years is included in Table 4.

Net Income and Earnings per Share – Table 1 of the MD&A shows the reconciliation of non-GAAP financial results to GAAP results for the three years. Except as noted in the reconciliation in Table 1, variations in net income and total revenues result primarily from changes in total mutual fund assets under management. During 2008 there were significant declines in global financial markets resulting in lower asset values particularly in the last quarter of the year. Average daily mutual fund assets under management by year are shown in Table 4. The decrease in the Company's total mutual fund assets under management during 2008 was consistent with the decline in mutual fund assets experienced by the Canadian mutual fund industry. The impact on earnings and revenues of changes in mutual fund assets under management are discussed in the Review of Segment Operating Results sections of the MD&A for both Investors Group and Mackenzie.

Total assets under management at December 31, 2008 were $101.7 billion and included mutual fund assets under management totaling $85.0 billion. Net income in future periods will largely be determined by the level of mutual fund assets which will continue to be influenced by global market conditions.

Dividends per Common Share – Dividends per common share increased by 13% in 2008, 16% in 2007 and 15% in 2006.

TABLE 3: EFFECTIVE INCOME TAX RATE

	2008	2007
Income taxes at Canadian federal and provincial statutory rates	32.37%	35.18%
Effect of:		
Dividend income	(0.50)	(0.31)
Net capital gains and losses	(0.35)	(0.52)
Proportionate share of affiliate's earnings	(3.08)	(2.49)
Preferred dividends paid	0.69	0.60
Other items	(1.82)	(2.55)
Effective income tax rate before items noted below	27.31	29.91
Proportionate share of affiliate's impairment charge	1.96	–
Impact of rate changes on future income taxes related to indefinite life intangible assets	–	(1.23)
Effective income tax rate	29.27%	28.68%

TABLE 4: SELECTED ANNUAL INFORMATION

	2008	2007	2006
Consolidated statements of income *($ millions)*			
Fee income	$ 2,502.5	$ 2,701.0	$ 2,392.3
Net investment income and other	202.2	194.1	212.3
	2,704.7	2,895.1	2,604.6
Operating expenses	1,644.7	1,658.4	1,494.6
	1,060.0	1,236.7	1,110.0
Proportionate share of affiliate's impairment charge, net of tax	60.3	–	–
Income before income taxes, non-controlling interest and proportionate share of affiliate's gain	999.7	1,236.7	1,110.0
Income taxes	292.6	354.7	331.2
Income before non-controlling interest and proportionate share of affiliate's gain	707.1	882.0	778.8
Non-controlling interest	1.3	2.9	2.1
Net income before proportionate share of affiliate's gain	705.8	879.1	776.7
Proportionate share of affiliate's gain	25.0	–	–
Net income			
In accordance with GAAP	$ 730.8	$ 879.1	$ 776.7
Adjusted net income(1)	$ 766.1	$ 863.8	$ 763.0
Earnings per share *($)*			
In accordance with GAAP			
– Basic	$ 2.78	$ 3.32	$ 2.93
– Diluted	$ 2.76	$ 3.29	$ 2.90
Adjusted earnings per share (1)			
– Basic	$ 2.91	$ 3.26	$ 2.88
– Diluted	$ 2.89	$ 3.23	$ 2.85
Dividends per share *($)*			
Common	$ 2.00	$ 1.78	$ 1.54
Preferred	$ 1.44	$ 1.44	$ 1.44
Average daily mutual fund assets *($ millions)*	$ 99,903	$ 110,167	$ 99,015
Total mutual fund assets under management *($ millions)*	$ 85,025	$ 108,994	$ 106,987
Total assets under management(2) *($ millions)*	$ 101,742	$ 122,982	$ 119,364
Total corporate assets *($ millions)*	$ 8,294	$ 7,859	$ 7,333
Total long-term debt *($ millions)*	$ 1,200	$ 1,200	$ 1,200
Outstanding common shares *(thousands)*	262,365	264,193	264,866

(1) Refer to the Summary of Consolidated Operating Results for an explanation of the Company's use of non-GAAP financial measures.

(2) Total assets under management excludes $2.1 billion of assets sub-advised by Mackenzie on behalf of Investors Group ($2.7 billion at December 31, 2007 and $2.6 billion at December 31, 2006) and is adjusted for $20 million in inter-segment assets ($31 million at December 31, 2007 and $35 million at December 31, 2006).

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SUMMARY OF QUARTERLY RESULTS

Financial information for the eight most recently completed quarters is shown in Table 5 and includes the reconciliation of non-GAAP financial measures to net income in accordance with GAAP. The reconciling items relate to the Company's proportionate share of affiliate's impairment charge of $60.3 million in the fourth quarter of 2008 and the proportionate share of affiliate's gain of $25.0 million in the second quarter of 2008 as described in the Summary of Consolidated Operating Results and to a non-cash income tax benefit of $15.3 million in the fourth quarter of 2007.

Quarterly earnings are primarily dependent on the level of mutual fund assets under management. Average daily mutual fund assets under management by quarter are shown in Table 5.

Fourth Quarter 2008 Results

Adjusted net income for the three months ended December 31, 2008 was $140.1 million compared with adjusted net income of $219.0 million in 2007, a decrease of 36.0%. A detailed discussion of Investors Group and Mackenzie segment operating results for the three months ended December 31, 2008 compared with the same period in 2007 is contained in their respective sections of this MD&A.

Adjusted net income in the fourth quarter of 2008 declined by $58.6 million from third quarter 2008 levels.

TABLE 5: SUMMARY OF QUARTERLY RESULTS

	2008				2007			
	4	3	2	1	4	3	2	1
Consolidated statements of income *($ millions)*								
Fee and net investment income								
Management	396.3	477.0	503.3	490.6	522.1	531.6	530.5	511.8
Administration	84.2	88.1	89.4	87.5	90.2	90.8	84.7	83.8
Distribution	67.4	70.6	72.4	75.7	66.8	64.6	61.9	62.2
Net investment income and other	36.1	49.3	55.9	60.9	42.5	43.8	44.8	63.0
Total fee and net investment income	584.0	685.0	721.0	714.7	721.6	730.8	721.9	720.8
Operating expenses								
Commission expense	206.4	230.0	234.8	235.0	241.4	238.0	236.3	231.4
Non-commission expense	162.6	155.4	162.5	167.4	156.8	154.9	154.1	157.2
Interest expense	24.4	22.2	22.0	22.0	22.2	22.2	22.0	21.9
Total operating expenses	393.4	407.6	419.3	424.4	420.4	415.1	412.4	410.5
	190.6	277.4	301.7	290.3	301.2	315.7	309.5	310.3
Proportionate share of affiliate's impairment charge, net of tax	60.3	–	–	–	–	–	–	–
Income before undernoted	130.3	277.4	301.7	290.3	301.2	315.7	309.5	310.3
Income taxes	50.4	78.4	85.2	78.6	66.3	96.5	92.8	99.1
	79.9	199.0	216.5	211.7	234.9	219.2	216.7	211.2
Non-controlling interest	0.1	0.3	0.4	0.5	0.6	0.8	0.8	0.7
Net income before undernoted	79.8	198.7	216.1	211.2	234.3	218.4	215.9	210.5
Proportionate share of affiliate's gain	–	–	25.0	–	–	–	–	–
Net income								
In accordance with GAAP	79.8	198.7	241.1	211.2	234.3	218.4	215.9	210.5
Reconciliation of non-GAAP financial measures(1) *($ millions)*								
Adjusted net income – non-GAAP measure	140.1	198.7	216.1	211.2	219.0	218.4	215.9	210.5
Proportionate share of affiliate's impairment charge	(60.3)	–	–	–	–	–	–	–
Proportionate share of affiliate's gain	–	–	25.0	–	–	–	–	–
Non-cash income tax benefit	–	–	–	–	15.3	–	–	–
Net income – in accordance with GAAP	79.8	198.7	241.1	211.2	234.3	218.4	215.9	210.5
Earnings per share *(¢)*								
In accordance with GAAP								
– Basic	30	75	91	80	89	83	82	79
– Diluted	30	75	91	79	88	82	81	79
Adjusted earnings per share(1)								
– Basic	53	75	82	80	83	83	82	79
– Diluted	53	75	81	79	82	82	81	79
Average daily mutual fund assets *($ billions)*	85.6	102.0	107.9	104.3	109.3	110.7	112.2	108.4
Total mutual fund assets under management *($ billions)*	85.0	98.0	104.8	105.3	109.0	111.0	112.1	110.3

(1) Refer to the Summary of Consolidated Operating Results for an explanation of the Company's use of non-GAAP financial measures.

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Investors Group
Review of the Business

Investors Group's core business provides a broad range of financial and investment planning services to Canadians through its dedicated network of Consultants across the country.

Investors Group earns revenue primarily from:

- Management fees charged to its mutual funds.
- Fees charged to its mutual funds for administrative, trustee and other services.

Fee income is also earned from the distribution of insurance, securities and other financial services. Additional revenue is derived from net investment income and other income, as discussed in the Review of Segment Operating Results.

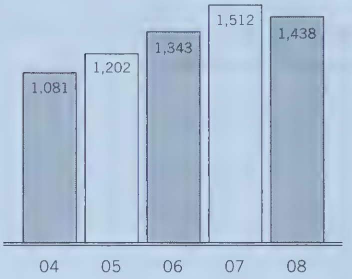
Revenues depend largely on the level and composition of mutual fund assets under management. Our comprehensive approach to financial planning, provided by our Consultants through the broad range of financial products and services offered by Investors Group, has resulted in comparatively strong mutual fund sales in a period of significant market volatility and a mutual fund redemption rate lower than the industry average. Mutual fund gross sales through our Consultant network were $5.9 billion in 2008. The redemption rate on long-term funds was 7.9% for the twelve months ending December 31, 2008, compared to the record low rate of 7.3% in 2007. Net sales were $625 million, down from $2.2 billion in 2007.

INVESTORS GROUP STRATEGY

Investors Group strives to ensure that the interests of shareholders, clients, Consultants and employees are as closely aligned as possible. Investors Group's business approach is focused on:

1. Growing our distribution network through the attraction of new Consultants to our industry and the retention and continued support of existing Consultants.
2. Emphasizing the delivery of financial planning advice, products and services through our dedicated network of Consultants, particularly during periods of market volatility.
3. Communicating actively with our Consultants and primarily through them to our clients during periods of extensive market volatility.
4. Extending the diversity and range of products offered by Investors Group as we continue to build and maintain enduring client relationships.
5. Maximizing returns on business investment by focusing resources on initiatives that have direct benefits to clients and Consultants and controlling expenditures and increasing efficiencies through effective working relationships with other members of the Power Financial group of companies.

Fee Income – Investors Group
For the financial year *($ millions)*



CONSULTANT NETWORK

Investors Group distinguishes itself from its competition by offering personal financial planning to its clients within the context of long-term relationships. At the centre of this relationship is a national distribution network of Consultants in 92 region offices across Canada. Seven new region offices were announced in 2008 as Investors Group continued to build its Consultant network. These region offices were established in Edmonton, Winnipeg, Brampton, Toronto, Newmarket, Barrie and Ottawa.

At the end of 2008, Investors Group had 4,479 Consultants, compared with 4,331 at the end of 2007. The number of Consultants with more than four years experience was 2,479 compared to 2,327 a year earlier. Our Consultant network has grown in each of the last eighteen consecutive quarters increasing by 1,272 Consultants or 40% since June 30, 2004.

Consultant Development

Investors Group combines a number of interview and testing techniques to identify individuals who demonstrate a blend of experience, education and aptitude that makes them well suited to becoming successful financial planners.

Each year our training curriculum is reviewed and refreshed to offer new Consultants important building blocks to develop client relationships. As Consultants progress, they develop their skills as financial planners and business managers by attending a selection of focused educational programs including: financial planning skills, product knowledge, client service, business development skills, compliance, technology, practice management and other related topics. This core training is supplemented by annual training conferences where education is tailored to both new and experienced Consultants.

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Field Management Development

As part of Investors Group's commitment to growth, we continued to focus on developing a strong and experienced leadership team across the country. In addition to increasing the number of individuals in field management roles, we also provided additional opportunities for Consultants considering a management role, management training and peer-to-peer coaching.

COMMUNICATING WITH CONSULTANTS AND CLIENTS

During this period of significant market volatility, communications to Consultants and clients was increased. Consultants were provided with comprehensive information on the current market environment and key long-term investment considerations, as well as tools and resources to assist them in their communications with clients. Our Consultants, in turn, maintained a high degree of contact with our clients, continuing to reinforce the importance of long-term planning and a diversified investment portfolio.

PRODUCTS AND SERVICES

Investors Group is regarded as a leader in personal financial planning in Canada. Consultants recommend balanced, diversified and professionally managed portfolios that reflect the client's goals, preferences and risk tolerance. They also look beyond investments to offer clients access to insurance, mortgages and other financial services.

PFP – Personal Financial Planner

Investors Group's Personal Financial Planner (PFP) software handles a wide range of potential financial planning needs – from projections and illustrations for basic financial planning concepts to the preparation of written financial plans which integrate all disciplines of financial planning, including investment, tax, retirement, education, risk management and estate planning.

Symphony Strategic Investment Planning™ Program

Symphony is Investors Group's strategic investment planning approach, designed to provide a sophisticated investment discipline and is supported by a consistent methodology for measuring a client's risk tolerance. Consultants are then able to provide risk-adjusted recommendations using Investors Group's broad offering of funds.

Charitable Giving Program

The Investors Group Charitable Giving Program is a donor-advised giving program which enables Canadians to make donations and build an enduring charitable giving legacy with considerably less expense and complexity than setting up and administering their own private foundation.

Tax Free Savings Account

Investors Group, along with Mackenzie, was one of the first mutual fund companies in Canada to offer the TFSA to Canadians. This new investment vehicle is an important component of a comprehensive financial plan, offering a highly flexible, tax-efficient way to save for retirement or other financial goals. In November, Consultants began to meet with clients to introduce the TFSA and complete account set up in advance of the January 1, 2009 introduction of the savings program.

Mutual Funds

Investors Group had $47.5 billion in mutual fund assets under management at December 31, 2008 in 144 mutual funds covering a broad range of investment mandates. This compared with $60.2 billion in 2007, a decrease of 21.1%.

Through our own international team of investment professionals and relationships with external investment advisors, we provide clients with access to a wide range of investment advisory services. Clients can diversify their holdings across fund managers, asset categories, investment styles, geography, capitalization and sectors through portfolios customized to meet their objectives.

Investors Group Masterseries funds are managed by I.G. Investment Management, our own multi-disciplinary team of investment professionals with offices and advisors in North America, Europe, and Asia. Our global connections, depth of research and use of information technology provide us with the investment management capabilities to offer our clients investment management expertise suitable for the widest range of investment objectives. Investors Group also offers a range of partner funds through advisory relationships with other investment management firms and oversees these external investment advisors to ensure that their activities are consistent with Investors Group's investment philosophy and with the investment objectives and strategies of the funds that they advise. These advisory relationships include investment managers such as AGF Funds Inc., Beutel, Goodman & Company, Ltd., Bissett Investment Management (an operating division of Franklin Templeton Investments Corp.), Camlin Asset Management Ltd., Fidelity

Investments Canada Limited, Franklin Templeton Investments Corp., Goldman Sachs Asset Management, L.P., LaSalle Investment Management (Securities), L.P., Mackenzie, and Putnam Investments Inc.

At December 31, 2008, 66% of Investors Group mutual funds (Masterseries, partner and portfolio funds) had a rating of three stars or better from the Morningstar† fund ranking service and 24% had a rating of four or five stars. This compared to the Morningstar† universe of 65% for three stars or better and 30% for four and five star funds at December 31, 2008. Morningstar† Ratings are an objective, quantitative measure of a fund's three, five and ten year risk-adjusted performance relative to comparable funds.

Investors Group expects to continue to enhance the performance, scope and diversity of our investment offering with the introduction of new funds that are well-suited to the long-term diverse needs of Canadian investors.

- On January 14, 2008, Investors Group launched the Investors Global Real Estate Fund and Alto Monthly Income and Global Growth Portfolio.
- On July 28, 2008, Investors Group launched two new funds: IG Putnam U.S. High Yield Income Fund and IG Mackenzie Global Precious Metals Class.

On September 5, 2008, five fund mergers were completed involving funds with similar existing mandates:

- IG FI U.S. Equity Fund and Class into IG AGF U.S. Growth Fund and Class
- IG FI Global Equity Fund and Class into Investors Global Fund and Class
- IG Templeton World Allocation Fund into Investors Tactical Asset Allocation Fund

These mergers are expected to provide enhanced diversification opportunities and in some cases lower management and administration fees for clients.

Managed Asset and Multi-Manager Investment Programs

Investors Group Corporate Class Inc. is a broad tax advantaged fund structure which features the ability to switch on a fee-free basis among 49 funds within the group of funds with no immediate tax consequences. The funds include 31 funds advised by I.G. Investment Management and 18 funds advised by external investment advisors. At the end of 2008, the Corporate Class funds totalled $2.1 billion in assets compared with $2.5 billion in 2007.

Investors Group provides clients with access to a growing selection of asset allocation opportunities which include:

- **Allegro Portfolios:** The seven Allegro Portfolios provide a single step investment solution offering geographic, investment style, asset class, and investment advisor diversification based on Symphony asset allocation recommendations. Fund assets were $2.4 billion as of December 31, 2008 compared with $2.7 billion in the previous year.
- **Alto Portfolios:** The Alto Portfolios provide a single step investment solution offering geographic, investment style and asset class diversification based on Symphony asset allocation recommendations. The eleven portfolios include Investors Group funds and funds advised by Mackenzie. Assets in the portfolios were $1.7 billion as of December 31, 2008, relatively unchanged from 2007.
- **Investors Group Portfolios:** These funds have assets of $6.6 billion as at December 31, 2008, compared with $7.8 billion in the previous year. The program is comprised of eight funds which invest in 20 underlying Investors funds to provide a high level of diversification.
- ***i*Profile™:** This is a unique portfolio management program introduced in 2001 that is available for clients with assets over $250,000. *i*Profile investment portfolios have been designed to maximize returns and manage risk by diversifying across asset classes, management styles and geographic regions. The program is advised by a select group of 10 global money management firms such as Goldman Sachs Asset Management, Jarislowsky Fraser Limited, Waddell & Reed, JPMorgan Chase & Co. and I.G. Investment Management, Ltd. At the end of 2008, this program had $420 million in assets, compared with $556 million in the previous year.

Segregated Funds

Investors Group offers 22 of The Great-West Life Assurance Company (Great-West Life) segregated funds that are distributed solely by Investors Group Consultants. These segregated funds provide our clients with death benefit guarantees and potential creditor protection. These segregated funds also provide protection from long-term market volatility by providing two levels of guarantees – 75% or 100% of the principal invested. The investment components of these segregated funds are managed by Investors Group.

Insurance

Investors Group continues to be a leader in the distribution of life insurance in Canada. Through its arrangements with leading insurance companies, Investors Group offers a broad range of term, universal life, whole life, disability, critical illness, long-term care, personal health care coverage and group insurance. I.G. Insurance Services Inc. currently has distribution agreements with:

- The Canada Life Assurance Company
- The Great-West Life Assurance Company
- Sun Life Assurance Company of Canada
- The Manufacturers Life Insurance Company

Sales of insurance products as measured by new annualized premiums were $48 million, an increase of 23% over $39 million in 2007. Total face amount of insurance in force in 2008 was $48.1 billion. The average number of policies sold by each licensed Consultant was 8.5 in 2008, an increase of 9% compared with 7.8 in 2007. Distribution of insurance products is enhanced through the Company's insurance specialists throughout Canada who assist Consultants with the selection of insurance solutions.

Securities Operations

Investors Group Securities Inc. is an investment dealer registered in all Canadian provinces and territories providing securities services to clients seeking a broader product offering in combination with financial and investment planning. Investors Group Consultants can refer clients to one of our securities specialists available through Investors Group Securities Inc.

At December 31, 2008, total assets under administration were $4.6 billion. The assets gathered during 2008 were $1.3 billion, compared to $1.2 billion in 2007.

In 2008, we continued to evolve the service we developed to accommodate individual stocks and bonds owned by our clients within their financial plan. This involved further investment in our systems and the addition of a number of securities specialists who work alongside our Consultants and are licensed to advise on individual securities. In addition, a few of our Consultants transitioned their registration to the Investment Industry Regulatory Organization of Canada (IIROC) but remain within our region offices and continue to operate in our established business model of a managed asset focus delivered within a financial planning context.

Mortgage Operations

Clients who are seeking residential mortgages are referred to Investors Group mortgage planning specialists who originate mortgages in key residential markets.

In 2008, Investors Group continued to offer a competitively priced mortgage offering, which was well received by Consultants and clients. Mortgage originations totalled $1.1 billion, relatively unchanged from 2007.

Through its mortgage banking operations, residential mortgages are funded primarily through sales to third parties, including Canada Mortgage and Housing Corporation (CMHC) or Canadian bank sponsored securitization trusts, private placements to institutional investors, or placed with Investors Mortgage and Short Term Income Fund or Investors Group's intermediary operations. During the second quarter of 2008, the Company was approved by CMHC as an issuer of National Housing Act Mortgage Backed Securities (NHA MBS) and as a seller into the Canada Mortgage Bond Program (CMB Program). This issuer and seller status provides Investors Group with additional funding sources for residential mortgages.

Solutions Banking†

The National Bank of Canada continues to provide Investors Group's clients with a wide range of products and services through Solutions Banking† under a long-term distribution agreement. Products and services include: investment loans, lines of credit, personal loans, creditor insurance, deposit accounts and credit cards. Clients have access to a network of banking machines, as well as a private labeled client website and private labeled client service centre. The Solutions Banking† offering supports Investors Group's approach to delivering total financial solutions for our clients via a broad financial planning platform.

Additional Products and Services

Investors Group also provides its clients with guaranteed investment certificates offered by Investors Group Trust Co. Ltd., as well as a number of other financial institutions.

IGM FINANCIAL INC.

Review of Segment Operating Results

Investors Group's earnings from operations before interest and taxes for the three and twelve months ended December 31, 2008 compared with 2007 are presented in Table 6.

FEE INCOME

Fee income is generated from the management, administration and distribution of Investors Group mutual funds. The distribution of insurance and Solutions Banking† products and the provision of securities services provide additional fee income.

Total fee income for the three months ended December 31, 2008 decreased by $64.9 million to $317.6 million, a decrease of 17.0% from 2007. Total fee income for the year ended December 31, 2008 decreased by $74.5 million to $1.4 billion, a decrease of 4.9% from 2007 and represented 90.5% of gross revenue in 2008, compared with 92.3% in 2007. Fee income is driven primarily by the level and composition of mutual fund assets under management which increase or decrease due to several factors including: sales, redemptions and net asset values of our funds.

For the three months ended December 31, 2008, sales of Investors Group mutual funds through its Consultant network were $1.2 billion, a decrease of 24.5% from 2007. Mutual fund redemptions, which totalled $1.2 billion for the same period, decreased 6.0% from 2007 levels. Investors Group's twelve month trailing redemption rate for long-term funds was 7.9% at December 31, 2008 compared to the record low rate of 7.3% at December 31, 2007, and remains well below the corresponding average redemption rate of approximately 19.2% for all other members of the Investment Funds Institute of Canada (IFIC) at December 31, 2008. Net sales of Investors Group mutual funds for the three month period ended December 31, 2008 were $60 million compared with net sales of $386 million in 2007. Sales of long-term funds were $913 million for the three months ended December 31, 2008, compared with $1.3 billion in 2007. Net sales of long-term funds for the three months ended December 31, 2008 were $21 million compared to net sales of $261 million in 2007.

For the year ended December 31, 2008, sales of Investors Group mutual funds through its Consultant network were $5.9 billion, a decrease of 17.8% from 2007. Mutual fund redemptions, which totalled $5.3 billion for the same period, increased 4.9% from 2007 levels. Net sales of Investors Group mutual funds were $625 million in 2008 compared with net sales of $2.2 billion in 2007, a decrease of 71.0%. Sales of long-term funds were $4.6 billion in 2008, compared with $6.0 billion in 2007, a decrease of 23.6%. Net sales of long-term funds were $274 million compared to net sales of $1.7 billion in 2007, a decrease of 83.9%.

TABLE 6: OPERATING RESULTS – INVESTORS GROUP

	THREE MONTHS ENDED DECEMBER 31			TWELVE MONTHS ENDED DECEMBER 31		
($ millions)	2008	2007	CHANGE	2008	2007	CHANGE
Fee and net investment income						
Management	$ 230.4	$ 295.4	(22.0)%	$ 1,077.7	$ 1,176.7	(8.4)%
Administration	49.8	55.2	(9.8)	210.7	208.6	1.0
Distribution	37.4	31.9	17.2	149.5	127.1	17.6
	317.6	382.5	(17.0)	1,437.9	1,512.4	(4.9)
Net investment income and other	29.9	28.0	6.8	151.2	126.2	19.8
	347.5	410.5	(15.3)	1,589.1	1,638.6	(3.0)
Operating expenses						
Commissions	65.2	58.0	12.4	246.8	224.0	10.2
Asset retention bonus and premium	51.0	59.3	(14.0)	226.6	236.1	(4.0)
Non-commission	82.0	78.5	4.5	317.5	293.6	8.1
	198.2	195.8	1.2	790.9	753.7	4.9
Earnings before interest and taxes	$ 149.3	$ 214.7	(30.5)%	$ 798.2	$ 884.9	(9.8)%

TABLE 7: CHANGE IN MUTUAL FUND ASSETS UNDER MANAGEMENT – INVESTORS GROUP

	THREE MONTHS ENDED DECEMBER 31			TWELVE MONTHS ENDED DECEMBER 31		
($ millions)	2008	2007	CHANGE	2008	2007	CHANGE
Sales	$ 1,236.5	$ 1,637.4	(24.5)%	$ 5,945.7	$ 7,229.4	(17.8)%
Redemptions	1,176.1	1,251.4	(6.0)	5,320.4	5,071.1	4.9
Net sales	60.4	386.0	(84.4)	625.3	2,158.3	(71.0)
Market and income	(6,874.8)	(1,397.3)	N/M	(13,328.1)	(180.2)	N/M
Net change in assets	(6,814.4)	(1,011.3)	N/M	(12,702.8)	1,978.1	N/M
Beginning assets	54,305.5	61,205.2	(11.3)	60,193.9	58,215.8	3.4
Ending assets	$ 47,491.1	$ 60,193.9	(21.1)%	$ 47,491.1	$ 60,193.9	(21.1)%
Average daily assets	$ 48,019.2	$ 60,232.9	(20.3)%	$ 55,846.1	$ 60,328.7	(7.4)%

While net sales for the three and twelve months ended December 31, 2008 declined from 2007 levels, Investors Group's results were more favourable than overall industry results as reported by IFIC for the same periods.

Investors Group's mutual fund assets under management were $47.5 billion at December 31, 2008, as shown in Table 7. The decrease in mutual fund assets for the three and twelve month periods ended December 31, 2008 of $6.8 and $12.7 billion, respectively, was almost entirely due to net market depreciation resulting from declines in global stock markets during 2008.

Investors Group earns management fees for investment management services provided to its mutual funds which depend largely on the level and composition of mutual fund assets under management. Management fee income decreased by $65.0 million or 22.0% to $230.4 million for the three months ended December 31, 2008 and decreased by $99.0 million or 8.4% to $1.1 billion for the year ended December 31, 2008. The decline in both periods was due primarily to the decrease in average daily mutual fund assets from 2007.

For the three months ended December 31, 2008, management fee income was 190.9 basis points of average daily mutual fund assets compared to 194.6 basis points in 2007. Average daily mutual fund assets were $48.0 billion in the quarter compared to $60.2 billion in 2007, a decrease of 20.3%.

For the year ended December 31, 2008, management fee income was 193.0 basis points compared to 195.1 basis points in 2007. Average daily mutual fund assets were $55.8 billion for the year compared to $60.3 billion in 2007, a decrease of 7.4%.

Investors Group receives administration fees for providing administrative services to its mutual funds and trusteeship services to its unit trust mutual funds. Administration fees totalled $49.8 million for the three months ended December 31, 2008 compared to $55.2 million in 2007. Administration fees for the year ended December 31, 2008 were $210.7 million compared to $208.6 million in 2007.

Effective October 1, 2007, Investors Group assumed responsibility for the applicable operating expenses of the funds, other than GST and certain specified fund costs, in return for a fixed rate administration fee established for each fund. The results for both the three and twelve month periods ended December 31, 2008 reflect the new fixed rate administration fee and the applicable operating expenses that, prior to October 1, 2007, were borne by the funds.

During the initial period of October 1, 2007 until December 31, 2009, and thereafter as may be applicable, the funds that existed as at October 1, 2007 may pay a monthly operating expense adjustment to Investors Group if the combined average monthly net assets for all funds and series that were subject to the administration fee proposal that was approved by investors on September 28, 2007 fall to a level that is 95% of the

amount of their total net assets. If it becomes payable, Investors Group is entitled to receive an operating expense adjustment for that month from each of those funds and series in such amount that will result in all of those series, collectively, paying an administration fee for the month equal to the administration fee that would have been payable had the monthly net assets equaled 95% of the net assets on October 1, 2007 throughout the month. If, in a subsequent month, the monthly net assets increase to an amount equal to or greater than 95% of the net assets on October 1, 2007, the operating expense adjustment will not be payable. Due to the continuing decline in Investors Group's mutual fund assets, as a result of the volatility in the global markets, Investors Group was entitled to an operating expense adjustment in 2008. Included in administration fees for the three and twelve month periods ended December 31, 2008 were operating expense adjustments of $5.0 million and $6.0 million, respectively. There were no operating expense adjustments paid by the Investors Group funds in 2007.

Distribution fees are earned from:

- Redemption fees on mutual funds sold on a deferred sales charge basis.
- Distribution of insurance products through I.G. Insurance Services Inc.
- Securities trading services provided through Investors Group Securities Inc.
- Banking services provided through Solutions Banking†, an arrangement with the National Bank of Canada.

Distribution fee income of $37.4 million for the three months ended December 31, 2008 increased by 17.2% from $31.9 million in 2007. For the twelve month period, distribution fee income of $149.5 million increased by 17.6% from $127.1 million in 2007. Distribution fee income from insurance and banking products increased in the three and twelve month periods by $5.8 million and $13.3 million, respectively. Redemption fee income of $8.9 million and $44.2 million for the three and twelve month periods increased by $0.8 million and $10.7 million, respectively, from the same periods in 2007 due to higher redemptions subject to deferred sales charges in 2008 compared to 2007.

NET INVESTMENT INCOME AND OTHER

Net investment income and other includes interest earned on cash and cash equivalents, securities and mortgage loans. It also includes realized gains and losses on the sale of securities, Investors Group's proportionate share of earnings of Great-West Lifeco Inc. (Lifeco), as well as income related to mortgage banking activities. Investors Group reports net investment income as the difference between investment income and interest expense. Interest expense includes interest on deposit liabilities, bank indebtedness and debt incurred to finance Investors Group's investment in Lifeco.

Net investment income and other increased to $29.9 million for the three months ended December 31, 2008 compared to $28.0 million in 2007 due to:

- The increase in net revenues related to Investors Group mortgage banking operations. Strong earnings in the three month period ended December 31, 2008 were offset in part by a non-cash fair value adjustment to the retained interest receivable related to the Canadian bank-sponsored securitization trusts into which Investors Group sells a portion of its mortgage originations. The unfavourable non-cash fair value adjustment totalled $14.0 million and resulted from higher credit spreads for asset-backed commercial paper structures.
- The increase in Investors Group's proportionate share of Lifeco earnings.

Increases in net investment income were offset by realized losses on the sale of securities which totalled $5.7 million for the three months ended December 31, 2008 compared with realized gains of $2.6 million in 2007.

For the year ended December 31, 2008, net investment income and other increased to $151.2 million compared to $126.2 million in 2007 due to:

- The increase in net revenues related to Investors Group's mortgage banking operations. The non-cash fair value adjustment to retained interest receivable resulting from higher credit spreads for asset-backed commercial paper structures totalled $14.0 million in 2008 as discussed above. A similar non-cash fair value adjustment totalling $13.8 million was recorded in the third quarter of 2007.
- The increase of $7.6 million in Investors Group's share of Lifeco earnings in 2008 compared with 2007.

Increases in net investment income were offset by a decline of $16.6 million in realized gains on the sale of securities in 2008 compared with 2007.

OPERATING EXPENSES

Investors Group incurs commission expense in connection with the distribution of its mutual funds and other financial services and products. Commissions are paid on the sale of these products and fluctuate with the level of sales. Commissions paid on the sale of mutual funds are deferred and amortized over a period of six years. Commission expense for the three months ended December 31, 2008 increased by $7.2 million to $65.2 million compared with $58.0 million in 2007. For the twelve month period ended December 31, 2008, commission expense increased by $22.8 million to $246.8 million from $224.0 million in 2007.

The increase in commission expense was due primarily to:

- Increase in amortization of mutual fund commissions totalling $2.0 million for the three months and $10.0 million for the twelve months.
- Increase in compensation directly related to higher sales of other financial products and services including insurance and Solutions Banking†.

The asset retention bonus (ARB) and premium (ARP) expenses, which are based on the level of assets under management, are comprised of the following:

- ARB, which is paid monthly and is based on the value of assets under management. ARB expense decreased by $9.1 million for the three month period to $41.4 million and decreased by $12.6 million for the twelve month period to $187.7 million as a result of the decrease in assets under management.
- ARP, which is a deferred component of compensation designed to promote Consultant retention and is based on assets under management at each year-end. ARP expense increased by $0.8 million and $3.1 million in the three and twelve month periods ended December 31, 2008 compared to 2007.

Non-commission expenses increased $3.5 million to $82.0 million for the three months ended December 31, 2008. For the twelve month period, non-commission expenses increased by $23.9 million to $317.5 million. Non-commission expenses include costs incurred by Investors Group related to Consultant network support, the administration, marketing and management of its mutual funds and other products, as well as other operating expenses.

- Investors Group's Consultant network continued to grow throughout 2008. As a result, expenses related to recruiting, training, field support and region office expansion increased in both the three and twelve months ended December 31, 2008, compared to the same periods in 2007.
- In addition, as a result of the implementation of the fixed administration fee on October 1, 2007, non-commission expenses in 2008 included an additional $10.4 million of mutual fund related expenses that, prior to October 1, 2007, were borne by the mutual funds.

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Mackenzie Review of the Business

Mackenzie's core business is the provision of investment advice and related services offered through diversified investment solutions, distributed through the multiple distribution channels focused on the provision of independent financial advice.

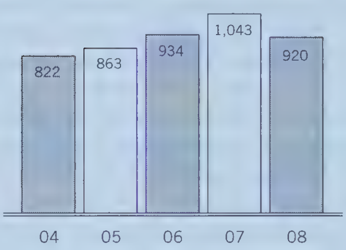
Mackenzie earns revenue primarily from:

- Management fees charged to its mutual funds, sub-advised accounts and institutional clients.
- Fees charged to its mutual funds for administrative and other services.

Fee income is also earned from the administration of registered and open accounts at M.R.S. Inc. and through deposit, lending and related services at M.R.S. Trust Company.

Revenues depend largely on the value and composition of assets under management. Mackenzie's proprietary investment research and team of experienced investment professionals and sub-advisors across the multiple brands offered at Mackenzie contribute to delivering flexibility and diversification opportunities through our broad product offerings for our clients.

Fee Income – Mackenzie
For the financial year *($ millions)*



MACKENZIE STRATEGY

Mackenzie strives to ensure that the interests of shareholders, dealers, advisors, investment clients and employees are as closely aligned as possible. Mackenzie's business approach embraces current trends and practices in the global financial services industry and our strategic plan is focused on:

1. The delivery of consistent long-term investment results.
2. Offering a diversified suite of investment solutions for financial advisors and investors.
3. Continuing to build and solidify our distribution relationships.
4. Maximizing returns on business investment by focusing resources on initiatives that have direct benefits to investment management, distribution and client service.

Founded in 1967, Mackenzie continues to build an investment advisory business through proprietary investment research and portfolio management while utilizing strategic partners in a selected sub-advisory capacity. Our sales model focuses on the provision of advice through multiple third party distribution channels. This approach is particularly relevant in the current economic environment as investors look for assistance in positioning their financial plans for the near and long terms. We are committed to continuing to partner with the advice channels going forward.

Mackenzie distributes its investment products and expertise through a sophisticated network of third party financial advisors. Mackenzie's wholesale teams work with many of the more than 30,000 independent financial advisors across Canada. To support sales into institutional and specialty markets, Mackenzie also deploys specialty teams in high net worth, group plans, sub-advisory, structured products and institutional areas.

ASSETS UNDER MANAGEMENT

Mackenzie's total assets under management at December 31, 2008 were $54.7 billion, a decrease of 13.6% from $63.3 billion at December 31, 2007. Mackenzie's mutual fund assets under management were $35.8 billion at December 31, 2008, a decrease of $10.8 billion from $46.6 billion at December 31, 2007. Mackenzie's sub-advisory, institutional and other accounts at December 31, 2008 were $18.9 billion, a 12.8% increase from $16.7 billion last year.

On January 1, 2008, Mackenzie assumed the management contracts for the mutual fund assets of Putnam Investments Inc., which are distributed in Canada, resulting in the addition of $222 million to its assets under management.

On September 25, 2008, Mackenzie acquired Saxon Financial Inc. (Saxon) resulting in the addition of $12.2 billion of assets under management. Saxon's assets under management as well as Saxon's sales and redemptions from September 26, 2008 are included in Mackenzie's results for the year ended December 31, 2008. At December 31, 2008, Saxon's mutual fund assets were $1.3 billion and Saxon's sub-advisory, institutional and other account assets were $9.8 billion. The changes in assets under management are summarized in Table 8.

TABLE 8: CHANGE IN ASSETS UNDER MANAGEMENT – MACKENZIE

($ millions)	THREE MONTHS ENDED DECEMBER 31 2008	2007	CHANGE	TWELVE MONTHS ENDED DECEMBER 31 2008	2007	CHANGE
Sales	$ 3,131.8	$ 2,952.5	6.1 %	$ 12,294.7	$ 12,688.4	(3.1)%
Redemptions	4,669.1	2,763.3	69.0	14,962.8	11,658.1	28.3
Net sales (redemptions)	(1,537.3)	189.2	N/M	(2,668.1)	1,030.3	N/M
Assets acquired	–	–	–	12,430.2	–	N/M
Net new money	(1,537.3)	189.2	N/M	9,762.1	1,030.3	N/M
Market and income	(8,578.2)	(407.9)	N/M	(18,378.3)	705.9	N/M
Net change in assets	(10,115.5)	(218.7)	N/M	(8,616.2)	1,736.2	N/M
Beginning assets	64,776.0	63,495.4	2.0	63,276.7	61,540.5	2.8
Ending assets	$ 54,660.5	$ 63,276.7	(13.6)%	$ 54,660.5	$ 63,276.7	(13.6)%
Consists of:						
Mutual funds				$ 35,813.8	$ 46,563.4	(23.1)%
Sub-advisory, institutional and other accounts				18,846.7	16,713.3	12.8
				$ 54,660.5	$ 63,276.7	(13.6)%
Daily average mutual fund assets	$ 35,881.1	$ 46,807.1	(23.3)%	$ 42,040.7	$ 47,587.8	(11.7)%
Monthly average total assets(1)	$ 56,106.6	$ 63,108.6	(11.1)%	$ 59,795.2	$ 63,541.4	(5.9)%

(1) Based on daily average mutual fund assets and month-end average sub-advisory, institutional and other assets.

In the three months ended December 31, 2008, Mackenzie's gross sales were $3.1 billion, an increase of 6.1% from $3.0 billion in the comparative period last year. Redemptions in the current period were $4.7 billion as compared to redemptions of $2.8 billion in 2007. Net redemptions for the three months ended December 31, 2008 were $1.5 billion, as compared to net sales of $0.2 billion last year. During the current quarter, net market depreciation resulted in assets decreasing by $8.6 billion as compared to a decrease of $0.4 billion in 2007.

In the year ended December 31, 2008, Mackenzie's gross sales were $12.3 billion, a decrease of 3.1% from $12.7 billion last year. Redemptions in the current year were $15.0 billion as compared to redemptions of $11.7 billion in 2007. Net redemptions for the year ended December 31, 2008 were $2.7 billion, as compared to net sales of $1.0 billion last year.

During 2008, net market depreciation resulted in assets decreasing by $18.4 billion as compared to market appreciation of $0.7 billion in 2007.

Redemptions of long-term mutual funds in 2008 were $7.5 billion as compared to redemptions of $6.5 billion in 2007. As at December 31, 2008, Mackenzie's twelve-month trailing redemption rate for long-term funds was 18.7%, as compared to 14.1% last year. The average twelve-month trailing redemption rate for long-term funds for all other members of IFIC increased to approximately 17.9% at December 31, 2008 from 13.9% last year. Mackenzie's twelve-month trailing redemption rate is comprised of the weighted average redemption rate for front-end load assets, deferred sales charge and low load units with redemption fees, and matured deferred sales charge units without redemption fees (matured units). Generally, redemption rates for front-end load units and matured units are higher than the redemption rates for deferred sales charge and low load units with redemption fees.

TABLE 9: ASSETS UNDER MANAGEMENT BY INVESTMENT OBJECTIVE – MACKENZIE

($ millions)	2008		2007	
Equity				
Domestic	$ 14,509.8	26.5%	$ 19,385.6	30.7%
Foreign	18,121.8	33.2	27,733.8	43.8
	32,631.6	59.7	47,119.4	74.5
Balanced				
Domestic	7,710.6	14.1	9,754.7	15.4
Foreign	1,920.9	3.5	1,793.4	2.8
	9,631.5	17.6	11,548.1	18.2
Fixed Income				
Domestic	7,907.5	14.5	2,715.3	4.3
Foreign	52.8	0.1	61.8	0.1
	7,960.3	14.6	2,777.1	4.4
Money Market				
Domestic	4,277.0	7.8	1,666.5	2.6
Foreign	160.1	0.3	165.6	0.3
	4,437.1	8.1	1,832.1	2.9
Total	$ 54,660.5	100.0%	$ 63,276.7	100.0%

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INSTITUTIONAL AND SUB-ADVISORY BUSINESS

Mackenzie's acquisition of Saxon has expanded its institutional business platform, by adding clients and investment mandate capability, particularly in the fixed income and small cap sectors. Mackenzie also increased its participation in the product platforms of banks, insurance companies and in the product offerings of MD Management and Investors Group.

INVESTMENT MANAGEMENT

Mackenzie's assets under management are diversified by investment objective as set out in Table 9. The development of a broad range of investment capabilities and products has proven to be, and continues to be, a key strength of the organization in satisfying the evolving financial needs of our clients.

The change in Mackenzie's assets under management depends primarily upon the following three factors: (1) the increase or decrease in the market value of the securities held in the portfolios of investments; (2) the level of sales as compared to the level of redemptions; and (3) acquisitions from time to time. Assets under management are subject to the risk of asset volatility resulting from changes in the financial and equity markets, including changes due to the recent volatility in global financial markets. The acquisition of Saxon has also contributed to the level and mix of Mackenzie's assets under management. At December 31, 2008, Saxon's assets under management by investment objective were as follows: Equity – $2.9 billion; Balanced – $1.1 billion; Fixed Income – $4.8 billion; and Money Market – $2.3 billion.

During the first half of the year, growth within emerging economies and increasing commodity prices supported equity markets. However, the decline of investor appetite for credit products, and the ensuing de-leveraging of the global financial system, caused markets to decline during the last quarter of the calendar year.

Long-term investment performance is a key measure of Mackenzie's ongoing success. At December 31, 2008, 56% of Mackenzie's mutual funds were rated in the top two performance quartiles for the one year time frame, 57% for the three year time frame and 48% for the five year time frame. Mackenzie also monitors its fund performance relative to the ratings it receives on its mutual funds from the Morningstar† fund ranking service. At December 31, 2008, 82% of Mackenzie's mutual fund assets measured by Morningstar† had a rating of three stars or better and 48% had a rating of four or five stars.

PRODUCTS

Mackenzie continued its tradition of innovation in 2008, providing additional investment solutions and new services for financial advisors to utilize with clients. Significant developments and new products launched this year included the following:

- March 26 – Mackenzie completed the second closing of the initial public offering of MSP* 2008 Resource Limited Partnership (the "Partnership"). The total amount raised by the Partnership was $25.5 million.
- March 28 – Mackenzie reopened to investors the Mackenzie Cundill* Recovery Fund. This Fund had been closed to new retail subscriptions since April 2006.
- April 4 – Mackenzie Universal* Health Sciences Class won the Lipper® Award for best healthcare equity fund for its 3-year risk adjusted performance.
- September 19 – at special meetings of investors, resolutions were approved to change the investment objectives of the following funds: Symmetry Managed Return Class, Symmetry Equity Class and Mackenzie Sentinel Canadian Managed Yield Class.
- September 26 – Mackenzie merged six of its Putnam funds into Mackenzie funds with similar mandates.
- September 26 – Mackenzie merged Mackenzie Focus America Class into Mackenzie Universal U.S. Blue Chip Class.
- October 10 – Mackenzie, along with Investors Group, was among the first mutual fund companies to offer Tax-Free Savings Account Applications (TFSAs) for Canadian investors.
- November 17 – Mackenzie launched Mackenzie Universal Africa & Middle East Class, the first fund in the Canadian marketplace to invest directly and exclusively in pan-Africa and the Middle East.
- November 24 – Mackenzie launched Symmetry One Portfolios, providing investors with a one-stop investment solution that can be purchased with a single trade through their advisor.
- December 3 – Mackenzie was recognized with three analysts' choice mutual fund awards at the Canadian Investment Awards: Mackenzie Ivy Foreign Equity in the global equity category, Mackenzie Ivy European in the European equity category, and Mackenzie Universal Health Science Class in the healthcare equity category.
- December 8 – Mackenzie launched Mackenzie Ivy American Class, a new U.S. equity fund managed by its Ivy investment team.
- December 9 – Mackenzie launched Mackenzie Guaranteed Investment Funds, a new line of segregated fund policies, offering the protective features of an insurance policy combined with the benefits of an investment fund.
- Throughout 2008, over $334 million in assets were invested in Mackenzie's Destination+* line-up of target date mutual funds.
- Over the course of the year Mackenzie expanded options for investors seeking regular, tax-efficient cash flow, by offering Series T shares on a wide variety of funds. Series T shares give investors the flexibility to tailor their income by choosing between a 5% annualized distribution (Series T5), a 6% annualized distribution (Series T6) and an 8% annualized distribution (Series T8).

TRUST, DEALER AND ADMINISTRATION SERVICES

Mackenzie continues to provide products and services to dealers, financial advisors and their respective clients through its subsidiaries. M.R.S. Trust Company provides an array of loan and deposit products to clients of independent financial advisors including registered and non-registered investment loans, residential mortgages, high-yield deposits and GICs. In addition, M.R.S. Trust provides trustee services to many distribution companies within the Power Financial group of companies. M.R.S. Inc. (MRS) is a carrying dealer service provider to distributors of mutual funds across Canada. MRS serves over 160 dealers and over 12,000 advisors. Clients can hold mutual funds, equities, fixed income securities and other specialty investments in an MRS account. Winfund Software Corp. is one of the larger providers of dealer and advisor software for distributors of mutual funds and segregated funds in Canada.

Mackenzie's earnings from operations before interest and taxes for the three and twelve months ended December 31, 2008 compared with 2007 are presented in Table 10.

FEE AND NET INVESTMENT INCOME

Mackenzie's management fee revenues are earned from services it provides as fund manager to the Mackenzie mutual funds and as investment advisor to sub-advisory and institutional accounts. The majority of Mackenzie's mutual fund assets are purchased on a retail priced basis. Mackenzie also offers various series of its mutual funds with management fees that are designed for fee-based programs, institutional investors and third party investment programs offered by banks, insurance companies and investment dealers. In these series of its mutual funds, Mackenzie does not pay trailing commissions or selling commissions. At December 31, 2008, there were $6.9 billion of mutual fund assets in these series of funds, as compared to $7.8 billion at December 31, 2007.

Management fees were $157.6 million for the three months ended December 31, 2008, a decrease of $57.7 million or 26.8% from $215.3 million last year. For the twelve month period ended December 31, 2008, management fees were $750.0 million, a decrease of $123.8 million or 14.2% from $873.8 million in 2007. The decrease in management fees in both the three and twelve month periods was due to the decline in Mackenzie's monthly average total assets under management combined with the change in mix of its assets under management.

Monthly average total assets under management were $56.1 billion in the three month period ended December 31, 2008 compared to $63.1 billion in 2007, a decrease of 11.1%. Monthly average total assets under management for the twelve month period ended December 31, 2008 were $59.8 billion compared to $63.5 billion in 2007, a decrease of 5.9%.

Mackenzie's average management fee rate was 111.8 basis points in the three month period ended December 31, 2008 and 125.4 basis points in the twelve month period ended December 31, 2008, compared to 135.4 basis points and 137.5 basis points respectively in the comparative periods in 2007. The decrease in the average management fee rate as compared to 2007 was due to the higher growth in Mackenzie's institutional accounts, primarily due to the acquisition of Saxon on September 25, 2008, and in its non-retail priced mutual funds relative to the growth in its retail priced mutual funds as institutional assets and non-retail priced mutual funds have lower management fees. In addition, changes in asset mix within Mackenzie's retail priced mutual funds, which represent the relative proportion of equity and fixed income assets under management, affect average management fee rates.

TABLE 10: OPERATING RESULTS – MACKENZIE

	THREE MONTHS ENDED DECEMBER 31			TWELVE MONTHS ENDED DECEMBER 31		
($ millions)	2008	2007	CHANGE	2008	2007	CHANGE
Fee and net investment income						
Management	$ 157.6	$ 215.3	(26.8)%	$ 750.0	$ 873.8	(14.2)%
Administration	33.8	35.0	(3.4)	136.1	139.2	(2.2)
Distribution	8.5	8.0	6.3	34.3	30.4	12.8
	199.9	258.3	(22.6)	920.4	1,043.4	(11.8)
Net investment income and other	4.6	0.4	N/M	22.7	19.9	14.1
	204.5	258.7	(21.0)	943.1	1,063.3	(11.3)
Operating expenses						
Commissions	30.1	42.9	(29.8)	142.2	164.7	(13.7)
Trailing commissions	40.2	56.5	(28.8)	196.6	230.6	(14.7)
Non-commission	70.3	69.0	1.9	289.6	292.9	(1.1)
	140.6	168.4	(16.5)	628.4	688.2	(8.7)
Earnings before interest and taxes	$ 63.9	$ 90.3	(29.2)%	$ 314.7	$ 375.1	(16.1)%

Administration fees include the following main components:

- Administration fees for providing services to the Mackenzie mutual funds and structured products.
- Asset allocation fees.
- Trustee and other administration fees generated from the MRS account administration business.

Administration fees were $33.8 million for the three months ended December 31, 2008, as compared to $35.0 million last year. Administration fees were $136.1 million for the twelve months ended December 31, 2008, as compared to $139.2 million in 2007.

Effective August 1, 2007, Mackenzie assumed responsibility for the applicable operating expenses of the Mackenzie funds, other than GST and certain specified fund costs, in return for a fixed rate administration fee established for each fund. The results for the three and twelve months ended December 31, 2008 reflect the new fixed rate administration fee and the applicable operating expenses that, prior to August 1, 2007, were borne by the funds.

During the initial period of August 1, 2007 until December 31, 2009, and thereafter as may be applicable, the funds that existed as at August 1, 2007 may pay a monthly operating expense adjustment to Mackenzie if the combined average monthly net assets for all Mackenzie funds and series that were subject to the administration fee proposal that was approved by investors on August 7, 2007 fall to a level that is 95% of the amount of their total net assets. If it becomes payable, Mackenzie will be entitled to receive an operating expense adjustment for that month from each of those funds and series in such amount that will result in all of those series, collectively, paying an administration fee for the month equal to the administration fee that would have been payable had the monthly net assets equaled 95% of the net assets on August 1, 2007 throughout the month. If, in a subsequent month, the monthly net assets increase to an amount equal to or greater than 95% of the net assets on August 1, 2007, the operating expense adjustment will not be payable. Due to the continuing decline in Mackenzie's mutual fund assets, as a result of the volatility in the global markets, Mackenzie was entitled to an operating expense adjustment in 2008. Included in administration fees for the three and twelve month periods ended December 31, 2008 were operating expense adjustments of $6.5 million and $10.1 million, respectively. There were no operating expense adjustments paid by the Mackenzie funds in 2007.

Mackenzie earns distribution fee income on redemptions of mutual fund units sold on a deferred sales charge basis and on a low load basis. Distribution fees charged for deferred sales charge assets range from 5.5% in the first year and decrease to zero after seven years. Distribution fees for low load assets range from 3.0% in the first year and decrease to zero after three years. Distribution fee income in the three months ended December 31, 2008 was $8.5 million, an increase of $0.5 million from $8.0 million last year. Distribution fee income for the twelve months ended December 31, 2008 was $34.3 million, an increase of $3.9 million from $30.4 million in 2007.

The primary component of net investment income and other is the net interest margin from M.R.S. Trust Company's lending and deposit-taking operations. Net investment income in the three months ended December 31, 2008 was $4.6 million, an increase of $4.2 million from $0.4 million in 2007. Net investment income in the twelve months ended December 31, 2008 was $22.7 million, an increase of $2.8 million from $19.9 million in 2007. Net investment income in the three and twelve month periods ended December 31, 2007 includes a $7.0 million charge recorded on an investment in non-bank sponsored asset-backed commercial paper. Excluding this charge, net investment income in both the three and twelve month periods ended December 31, 2008 were below the corresponding periods last year primarily due to the lower interest rate environment experienced in 2008 as compared to 2007 which resulted in a compression in M.R.S. Trust's net interest spreads.

OPERATING EXPENSES

Mackenzie's operating expenses were $140.6 million for the three months ended December 31, 2008, a decrease of $27.8 million or 16.5% from $168.4 million last year. Operating expenses for the twelve months ended December 31, 2008 were $628.4 million, a decrease of $59.8 million or 8.7% from 2007.

Mackenzie pays selling commissions to the dealers that sell its mutual funds on a deferred sales charge and low load basis. Commission expense, which represents the amortization of selling commissions, was $30.1 million in the three months ended December 31, 2008, as compared to $42.9 million last year. Commission expense in the twelve month period ended December 31, 2008 was $142.2 million as compared to $164.7 million in 2007. Mackenzie amortizes selling commissions over three years from the

date of original purchase of the applicable low load units and over a maximum period of seven years from the date of original purchase of the applicable deferred sales charge units. The decrease in commissions expense in both the three and twelve month periods ended December 31, 2008 as compared to last year is consistent with the general decline in selling commissions paid to dealers in both the current and previous years. An increasing percentage of Mackenzie's mutual funds are now sold on a front-end basis, and Mackenzie does not pay a selling commission on these sales.

Trailing commissions paid to dealers are calculated as a percentage of mutual fund assets under management and vary depending on the fund type and the basis upon which the fund was purchased: front-end, deferred sales charge or low load basis. Trailing commissions are generally not paid on non-retail series of mutual funds and institutional assets. Trailing commissions paid to dealers were $40.2 million in the three months ended December 31, 2008, a decrease of $16.3 million or 28.8% from $56.5 million last year. Trailing commissions in the twelve month period ended December 31, 2008 were $196.6 million, a decrease of $34.0 million or 14.7% from $230.6 million in the comparative period last year. The decrease in trailing commissions in both the three and twelve month periods ended December 31, 2008 is consistent with the period over period decline in average mutual fund assets under management and the change in asset mix within Mackenzie's mutual funds. Trailing commissions as a percentage of average mutual fund assets under management were 44.5 basis points in the three month period ended December 31, 2008 and 46.8 basis points in the twelve month period ended December 31, 2008, compared to 47.9 basis points and 48.4 basis points respectively in the comparative periods last year.

Non-commission expenses were $70.3 million in the three months ended December 31, 2008, an increase of $1.3 million or 1.9% from $69.0 million last year. Non-commission expenses in the twelve months ended December 31, 2008 were $289.6 million, a decrease of $3.3 million or 1.1% from $292.9 million in 2007. Non-commission expenses include costs incurred by Mackenzie related to the administration, marketing and management of its assets under management, as well as costs incurred in its account administration and trust company businesses. Effective September 25, 2008, Mackenzie's non-commission expenses include costs related to Saxon's operations. Excluding Saxon's non-commission expenses, Mackenzie's expenses would have been $65.5 million in the three month period ended December 31, 2008 and $284.6 million in the twelve month period ended December 31, 2008, decreases of $3.5 million and $8.3 million respectively from the corresponding periods last year. The integration of Saxon into Mackenzie's operations was completed in a timely manner in accordance with the business plan prepared by management at the time of acquisition. In addition, as a result of the implementation of the fixed rate administration fee on August 1, 2007, non-commission expenses in 2008 included an additional $5.9 million of mutual fund related expenses than in 2007, as prior to August 1, 2007 these costs were borne by the mutual funds.

IGM Financial Inc.
Consolidated Financial Position

IGM Financial's total assets were $8.2 billion at December 31, 2008, compared to $7.9 billion at December 31, 2007.

SECURITIES

The composition of the Company's securities holdings net of derivatives classified as fair value hedges is detailed in Table 11.

Securities classified as available for sale include equity securities held for long-term investment, fixed income securities and investments in proprietary mutual funds. Unrealized gains and losses on available for sale securities not designated as part of a hedging relationship are recorded in Other comprehensive income until realized. NHA MBS are classified as held for trading and, therefore, unrealized gains and losses are recorded in Net investment income and other in the Consolidated Statements of Income.

The fair value of the Company's common share holdings, net of derivatives classified as fair value hedges, was $294.2 million as at December 31, 2008 compared to $637.0 million at December 31, 2007, a decrease of $342.8 million. The decrease was due to the impact of net sales of common share holdings in 2008 of $210.0 million and the impact of the change in the fair value of the portfolio. Unrealized losses on the securities portfolio net of derivatives were $112.0 million at December 31, 2008 compared to unrealized gains of $20.9 million at December 31, 2007. The Company's exposure to and management of equity price risk related to its common share holdings is discussed fully in the Financial Instruments section of the MD&A and in Notes 2 and 19 in the Consolidated Financial Statements.

Fixed income securities of $231.3 million at December 31, 2008 are comprised primarily of Canadian chartered bank senior deposit notes and bankers' acceptances of $191.7 million and $35.3 million in non-bank-sponsored asset-backed commercial paper (ABCP). The Company's original investment in ABCP totalled $50.2 million. The Company reduced the fair value of the ABCP to $35.3 million by recording charges totalling $9.9 million in 2007 and $2.5 million in each of the second and third quarters of 2008. Refer to Note 2 of the Consolidated Financial Statements for additional information.

LOANS

Loans, including mortgages and investment loans, increased by $35.6 million to $589.6 million at December 31, 2008 and represented 7.1% of total assets, compared to 7.0% at December 31, 2007. Residential mortgage loans related to the Company's mortgage banking operations increased by $81.7 million. In the Company's deposit operations, investment loans increased by $2.6 million while residential mortgage loans decreased by $48.7 million in the twelve month period.

Residential mortgage loans originated by Investors Group are funded primarily through sales to third parties, including CMHC or Canadian bank sponsored securitization trusts, on a fully serviced basis. M.R.S. Trust Company sources mortgage loans through mortgage brokers and investment loans through financial advisors. These loans are funded primarily through the Company's deposit operations and, in certain instances, are sold to third parties (including securitization trusts) on a fully serviced basis.

The Company's exposure to and management of credit risk and interest rate risk related to its loan portfolios and its mortgage banking operations is discussed fully in the Financial Instruments section of the MD&A.

TABLE 11: SECURITIES, NET OF DERIVATIVES CLASSIFIED AS FAIR VALUE HEDGES

	2008		2007	
As at December 31 *($ thousands)*	COST	FAIR VALUE	COST	FAIR VALUE
Common shares(1)	$ 406,172	$ 294,164	$ 616,138	$ 637,026
Investments in proprietary mutual funds	33,360	28,518	26,981	29,269
Fixed income securities	229,969	231,289	40,291	40,291
NHA MBS	15,788	16,077	–	–
	$ 685,289	$ 570,048	$ 683,410	$ 706,586

(1) The fair value of derivatives classified as fair value hedges represent an increase to the fair value of common shares of $32.4 million at December 31, 2008 and $10.3 million at December 31, 2007 and are classified as Other Assets or Other Liabilities on the Consolidated Balance Sheets.

IGM FINANCIAL INC.

OFF-BALANCE SHEET SECURITIZATION ARRANGEMENTS

The Company's liquidity management practices include the periodic sales of mortgages to securitization trusts sponsored by third parties that in turn issue securities to investors. The Company retains servicing responsibilities and certain elements of recourse with respect to credit losses on transferred loans. During 2008, the Company entered into securitization transactions with Canadian bank-sponsored securitization trusts and the CMB Program through its mortgage banking operation with proceeds of $1,441.4 million compared with $1,286.9 million in 2007. Securitized loans serviced at December 31, 2008 totalled $2,943.2 million compared with $2,233.7 million at December 31, 2007. The fair value of the Company's retained interest was $216.5 million at December 31, 2008 and $48.0 million at December 31, 2007. Additional information related to the Company's securitization activities can be found in Notes 1 and 4 of the Consolidated Financial Statements.

Consolidated Liquidity and Capital Resources

LIQUIDITY

Cash and cash equivalents totalled $1.23 billion at December 31, 2008 compared with $1.18 billion at December 31, 2007. A significant portion of cash and cash equivalents and loans relates to the Company's deposit operations as shown in Table 12.

Working capital totalled $817.8 million at December 31, 2008, excluding the Company's cash and cash equivalents related to its deposit operations as shown in Table 12.

Working capital requirements include:

- Financing ongoing operations, including the funding of selling commissions.
- Temporarily financing mortgages in its mortgage banking facility.
- Meeting regular interest and dividend obligations related to long-term debt and preferred shares.
- Payment of quarterly dividends on its outstanding common shares.
- Maintaining liquidity requirements for regulated entities.
- Financing common share repurchases related to the Company's normal course issuer bid.

IGM Financial continues to generate significant cash flows from its operations. Earnings before interest, taxes, depreciation and amortization (EBITDA) totalled $1,518.1 million for 2008 compared to $1,699.5 million in 2007.

Refer to the Financial Instruments section of this MD&A for information related to other sources of liquidity and to the Company's exposure to and management of liquidity risk.

Cash Flows

Table 13 – Cash Flows is a summary of the Consolidated Statements of Cash Flows which form part of the Consolidated Financial Statements for the year ended December 31, 2008. Cash and cash equivalents increased $51.9 million in 2008 compared with a decrease of $145.2 million in 2007.

Operating activities, before payment of commissions, generated $858.9 million during the year ended December 31, 2008, as compared to $1,120.7 million in 2007. Cash commissions paid were $270.1 million in 2008 compared to $347.9 million in 2007. While mutual fund sales decreased approximately 12% in 2008 compared with 2007, commissions paid decreased by 22.4% reflecting an increase in the relative proportion in mutual funds assets purchased on a front-end basis

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)
For the financial year *($ millions)*

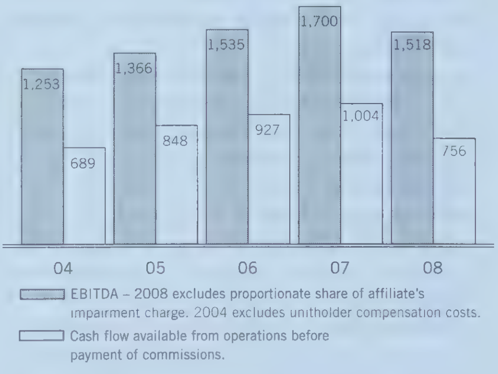

TABLE 12: ASSETS RELATED TO DEPOSIT OPERATIONS

As at December 31 *($ millions)*	2008	2007	CHANGE
Assets			
Cash and cash equivalents	$ 475.2	$ 519.6	(8.5)%
Securities	188.0	–	N/M
Loans	443.3	488.4	(9.2)
Total assets	$ 1,106.5	$ 1,008.0	9.8 %
Liabilities and shareholders' equity			
Deposit liabilities	$ 959.0	$ 856.9	11.9 %
Other liabilities – net	46.5	35.2	32.1
Shareholders' equity	101.0	115.9	(12.9)
Total liabilities and shareholders' equity	$ 1,106.5	$ 1,008.0	9.8 %

IGM FINANCIAL INC.

TABLE 13: CASH FLOWS

($ millions)	2008	2007	CHANGE
Operating activities			
Before payment of commissions	$ 858.9	$ 1,120.7	(23.4)%
Commissions paid	(270.1)	(347.9)	22.4
Net of commissions paid	588.8	772.8	(23.8)
Financing activities	(220.7)	(328.8)	32.9
Investing activities	(316.2)	(589.2)	46.3
Increase (decrease) in cash and cash equivalents	51.9	(145.2)	135.7
Cash and cash equivalents, beginning of year	1,180.3	1,325.5	(11.0)
Cash and cash equivalents, end of year	$ 1,232.2	$ 1,180.3	4.4 %

rather than on a deferred sales charge basis. Net cash flows from operating activities, net of commissions paid, was $588.8 million in 2008 as compared to $772.8 million in 2007.

Financing activities during the year ended December 31, 2008 compared to the same period in 2007 related primarily to:

- A net increase of $102.1 million in deposits and certificates in 2008 compared to a net increase of $79.4 million in 2007. The net increase in 2008 related to increases in both demand and term deposits levels.
- Net proceeds on bankers' acceptances of $286.6 million in 2008 which related to the acquisition of Saxon Financial Inc. compared to nil in 2007.
- Proceeds received on the issuance of common shares under the Company's stock option program of $22.0 million in 2008 compared with $16.8 million in 2007.
- The payment of regular common share dividends which increased to $513.2 million in 2008 from $453.3 million in 2007 as a result of increases in the Company's common share dividend rate.
- The purchase of 2,824,800 common shares in 2008 under IGM Financial's normal course issuer bid at a cost of $118.2 million compared with the purchase of 1,390,600 common shares at a cost of $71.6 million in 2007.

Financing activities in 2007 also included increases of $99.8 million in short-term borrowings.

Investing activities during the year ended December 31, 2008 compared to the same period in 2007 related primarily to:

- The acquisition of Saxon Financial Inc., net of cash and cash equivalents assumed, which totalled $264.7 million.
- Purchases of securities totalling $302.6 million and sales of securities with proceeds of $334.7 million in 2008 compared with $635.1 million and $126.8 million, respectively, in 2007.
- Net increases in loans of $1,491.6 million compared to $1,347.7 million in 2007 related primarily to residential mortgages in the Company's mortgage banking operations.
- Net cash proceeds resulting from the securitization of residential mortgage loans through Canadian bank-sponsored securitization trusts and the CMB Program of $1,441.4 million in 2008 compared to $1,286.9 million in 2007.

CAPITAL RESOURCES

The Company's capital management objective is to maximize shareholder returns while ensuring that the Company is capitalized in a manner which appropriately supports regulatory requirements, working capital needs and business expansion. The Company's capital management practices are focused on preserving the quality of its financial position by maintaining a solid capital base and a strong balance sheet. The Company regularly assesses its capital management practices in response to changing economic conditions. During the year, the Company filed a short form base shelf prospectus as discussed later in this report. This filing gives the Company the flexibility to adjust its capital structure in response to changes in economic

conditions and changes in its financial condition. Capital of the Company consists of long-term debt, preferred shares and shareholders' equity which totalled $5.7 billion at December 31, 2008, unchanged from December 31, 2007.

The Company's capital is primarily utilized in its ongoing business operations to support working capital requirements, long-term investments made by the Company, business expansion and other strategic objectives. Subsidiaries subject to regulatory capital requirements include trust companies, securities dealers and mutual fund dealers. The Company's subsidiaries have complied with all regulatory capital requirements.

Capital management activities for the year ended December 31, 2008 included the repurchase of 2,824,800 common shares at a cost of $118.2 million under the normal course issuer bid (Note 14 to the Consolidated Financial Statements). The Company intends to commence a normal course issuer bid in 2009 to purchase up to 5% of its common shares in order to provide flexibility to repurchase common shares as conditions warrant. Other capital management activities in 2008 included the declaration of preferred share dividends of $20.7 million and common share dividends of $526.1 million. Changes in common share capital are reflected in the Consolidated Statements of Changes in Shareholders' Equity. Long-term debt of $1.2 billion and preferred shares of $360 million remain unchanged.

In the first quarter of 2008, Standard & Poor's (S&P) issued their annual ratings of IGM Financial's senior debt and liabilities. The rating on the Company's senior debt and liabilities was maintained at "A+" with a stable outlook by S&P, reflecting the continuing quality of the Company's balance sheet and the strength of its operations. On July 17, 2008, the Dominion Bond Rating Service (DBRS) confirmed its annual rating at "A (high)" with a stable outlook.

Credit ratings are intended to provide investors with an independent measure of the credit quality of the securities of a company and are indicators of the likelihood of payment and the capacity of a company to meet its obligations in accordance with the terms of each obligation. Descriptions of the rating categories for each of the agencies set forth below have been obtained from the respective rating agencies' websites.

These ratings are not a recommendation to buy, sell or hold the securities of the Company and do not address market price, nor other factors that might determine suitability of a specific security for a particular investor. The ratings also may not reflect the potential impact of all risks on the value of securities and are

Capital
As at December 31 *($ millions)*

subject to revision or withdrawal at any time by the rating organization.

The "A+" rating assigned to the Company's senior unsecured debentures by S&P is the third highest of the ten major rating categories for long-term debt and indicates S&P's view that the Company's capacity to meet its financial commitment on the obligation is strong, but the obligation is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rated categories. S&P uses "+" or "-" designations to indicate the relative standing of securities within a particular ratings category.

According to S&P, the "Stable" rating outlook means that the rating is not likely to change over the medium term.

The A (High) rating assigned to IGM Financial's senior unsecured debentures by DBRS is the third highest of the ten rating categories for long-term debt. Under the DBRS system, debt securities rated A (High) are of satisfactory credit quality and protection of interest and principal is considered substantial. While this is a favourable rating, entities in the A (High) category are considered to be more susceptible to adverse economic conditions and have greater cyclical tendencies than higher-rated companies. A reference to "high" or "low" reflects the relative strength within the rating category, while the absence of either a "high" or "low" designation indicates the rating is placed in the middle of the category.

According to DBRS, the "Stable" rating trend helps give investors an understanding of DBRS's opinion regarding the outlook for the rating.

FINANCIAL INSTRUMENTS

Table 14 presents the carrying value and the fair value of financial instruments.

Fair value is determined using the following methods and assumptions:

- The fair value of short-term financial instruments approximate carrying value. These include cash and cash equivalents, other financial assets, and other financial liabilities.
- Securities are valued using quoted prices from active markets, when available. When a quoted market price is not readily available, valuation techniques are used that require assumptions related to discount rates and the timing and amount of future cash flows. Wherever possible, observable market inputs are used in the valuation techniques.
- Loans are valued by discounting the expected future cash flows at market interest rates for loans with similar credit risk and maturity.
- Deposits and certificates are valued by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms and credit risks.
- Preferred share liabilities are valued using quoted prices from active markets.
- Long-term debt is valued by reference to current market prices for debentures and notes payable with similar terms and risks.
- Derivative financial instruments fair values are based on quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, or net present value analysis.

Details of each component of the financial instruments are contained in the various related notes to the Consolidated Financial Statements.

Although the volatility experienced in capital markets throughout the third and fourth quarters of 2008 resulted in changes to both the carrying values and fair values of financial instruments, these changes did not have a material impact on the financial condition of the Company for the year ended December 31, 2008. The Company actively manages risks that arise as a result of holding financial instruments which include liquidity, credit and market risk.

Liquidity Risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. The Company's liquidity management practices include:

- Controls over liquidity management processes;
- Stress testing of various operating scenarios;
- Oversight over liquidity management by Committees of the Board of Directors.

TABLE 14: FINANCIAL INSTRUMENTS

	2008		2007	
As at December 31 *($ millions)*	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Assets				
Cash and cash equivalents	$ 1,232.2	$ 1,232.2	$ 1,180.3	$ 1,180.3
Securities	537.7	537.7	696.3	696.3
Loans	589.6	591.7	553.9	551.0
Other financial assets	281.1	281.1	259.5	259.5
Derivative assets	169.5	169.5	14.9	14.9
Total financial assets	$ 2,810.1	$ 2,812.2	$ 2,704.9	$ 2,702.0
Liabilities				
Deposits and certificates	$ 959.0	$ 964.2	$ 856.9	$ 857.0
Bankers' acceptances	286.6	286.6	–	–
Other financial liabilities	689.6	689.6	763.3	763.3
Derivative liabilities	141.8	141.8	23.5	23.5
Preferred share liabilities	360.0	366.5	360.0	391.5
Long-term debt	1,200.0	1,206.2	1,200.0	1,353.0
Total financial liabilities	$ 3,637.0	$ 3,654.9	$ 3,203.7	$ 3,388.3

As part of these ongoing liquidity management practices during 2008, the Company:

- Filed a short form base shelf prospectus to give the Company the flexibility to access debt and equity markets;
- Increased the Company's committed lines of credit;
- Developed additional funding sources for the Company's mortgage banking operations;
- Reviewed the concentration and diversification profile of the Company's cash and cash equivalents;
- Reduced the equity component of the Company's securities portfolio.

A key liquidity requirement for the Company is the funding of commissions paid on the sale of mutual funds. The payment of commissions continues to be fully funded through ongoing cash flow from operations.

The Company also maintains sufficient liquidity to fund and temporarily hold mortgages. Through its mortgage banking operations, residential mortgages are funded primarily through sales to third parties, including Canada Mortgage and Housing Corporation (CMHC) or Canadian bank sponsored securitization trusts, private placements to institutional investors, or placed with Investors Mortgage and Short Term Income Fund or Investors Group's intermediary operations. During the second quarter of 2008, the Company was approved by CMHC as an issuer of National Housing Act Mortgage Backed Securities (NHA MBS) and as a seller into the Canada Mortgage Bond Program (CMB Program). This issuer and seller status provides Investors Group with additional funding sources for residential mortgages (Note 4 to the Consolidated Financial Statements). During 2008, whole loan sales to third parties totalled $196.3 million and proceeds from securitizations were $1,441.4 million, compared with $681.0 million and $1,286.9 million respectively in 2007.

The Company's continued ability to fund residential mortgages through Canadian bank-sponsored securitization trusts and NHA MBS is dependent on securitization market conditions that are subject to change. In the fourth quarter of 2008, in addition to its continuing support of the CMB Program, the Government of Canada announced additional funding of $75 billion for MBS auctions. An additional $50 billion of funding was announced in its budget in January 2009.

Liquidity requirements for trust subsidiaries which engage in financial intermediary activities are based on policies approved by the investment and conduct review committees of their respective Boards of Directors. As at December 31, 2008, liquidity for the trust subsidiaries was in compliance with these policies.

The Company's contractual maturities are reflected in Table 15.

In addition to IGM Financial's current balance of cash and cash equivalents, other potential sources of liquidity include the Company's lines of credit and portfolio of securities. The Company increased its operating lines of credit with various Schedule I Canadian chartered banks to $475 million as at December 31, 2008 from $260 million as at December 31, 2007. The operating lines of credit as at December 31, 2008 consist of committed lines of $300 million (2007 – nil) and uncommitted lines of $175 million (2007 – $260 million). As at December 31, 2008, the Company had utilized $100.0 million of its uncommitted operating lines of credit, unchanged from December 31, 2007.

TABLE 15: CONTRACTUAL OBLIGATIONS

As at December 31, 2008 (*$ millions*)	DEMAND	LESS THAN 1 YEAR	1 – 5 YEARS	AFTER 5 YEARS	TOTAL
Deposits and certificates	$ 727.0	$ 112.5	$ 114.7	$ 4.8	$ 959.0
Bankers acceptances	–	–	286.6	–	286.6
Other liabilities	–	108.1	133.6	–	241.7
Long-term debt(1)	–	–	450.0	750.0	1,200.0
Preferred shares	–	–	360.0	–	360.0
Operating leases(2)	–	42.4	110.2	96.1	248.7
Total contractual obligations	$ 727.0	$ 263.0	$ 1,455.1	$ 850.9	$ 3,296.0

(1) Refer to Note 13 of the Consolidated Financial Statements.

(2) Refer to Note 23 of the Consolidated Financial Statements.
Includes office space and equipment used in the normal course of business.
Lease payments are charged to earnings in the period of use.

IGM FINANCIAL INC.

In connection with the acquisition of Saxon Financial Inc. on September 25, 2008, the Company maintains a non-revolving bridge credit facility with a Schedule I chartered bank totalling $287 million. At December 31, 2008, the Company had utilized $287.0 million. The credit facility is due October 27, 2009 but may, at the Company's option, be extended to April 2010.

The Company can access the domestic debt and equity markets to raise capital, however, its ability to access capital markets to raise funds is dependent on market conditions which have been adversely affected by the current credit conditions. The Company filed a short form base shelf prospectus, dated November 12, 2008, relating to the offer and issue of up to $1.5 billion of debt securities, first preferred shares, and common shares, or any combination thereof. This filing provides the Company with the flexibility to access the debt and equity markets on a timely basis.

Management believes cash flows from operations, available cash balances and other sources of liquidity described above will be sufficient to fund the Company's liquidity needs. The Company continues to have the ability to meet its operational cash flow requirements, its contractual obligations, as reflected in Table 15, and its declared dividends. The current practice of the Company is to declare and pay dividends to common shareholders on a quarterly basis at the discretion of the Board of Directors. Dividends increased for the 19th consecutive year in 2008, rising 22.5 cents to $2.00 per share for the year. The declaration of dividends by the Board of Directors is dependent on a variety of factors, including earnings which are significantly influenced by the performance of debt and equity markets. The Company's liquidity position and its management of liquidity risk have not changed materially since December 31, 2007.

Credit Risk

Credit risk is the potential for financial loss to the Company if a counterparty in a transaction fails to meet its obligations. The Company's cash and cash equivalents, securities holdings, mortgage and investment loan portfolios, and derivatives are subject to credit risk. The Company monitors its credit risk management practices continuously to evaluate their effectiveness.

At December 31, 2008, cash and cash equivalents of $1.23 billion consisted of cash balances of $118.6 million on deposit with Canadian chartered banks and cash equivalents of $1.11 billion. Cash equivalents consist of Government of Canada treasury bills totalling $436.3 million, provincial government and government guaranteed commercial paper of $161.2 million and bankers' acceptances issued by Canadian chartered banks of $516.1 million. The Company regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value. The Company mitigates credit risk on these financial instruments by adhering to its Investment Policy that outlines credit risk parameters and concentration limits.

Fixed income securities at December 31, 2008 include $191.7 million of Canadian chartered bank senior deposit notes and bankers' acceptances. The maximum exposure to credit risk on these financial instruments is their carrying value. The Company mitigates credit risk on these financial instruments by adhering to its Investment Policy that outlines credit risk parameters and concentration limits. Fixed income securities also include non-bank-sponsored ABCP, which totalled $35.3 million net of impairment charges and represents the maximum exposure to credit risk at December 31, 2008. Refer to Note 2 to the Consolidated Financial Statements for information related to the valuation of ABCP.

The Company regularly reviews the credit quality of the mortgage and investment loan portfolios and the adequacy of the general allowance. As at December 31, 2008 mortgages and investment loans totalled $287.0 million and $310.5 million, respectively. The allowance for credit losses of $8.0 million at December 31, 2008 exceeded impaired mortgages and investment loans by $7.5 million. As at December 31, 2008, the mortgage portfolios were geographically diverse, 100% residential and 64% insured. The credit risk on the investment loan portfolio is mitigated through the use of collateral, primarily in the form of mutual fund investments. Uninsured non-performing loans over 90 days in the mortgage and investment loan portfolios were $0.5 million at December 31, 2008, unchanged from December 31, 2007 levels. The characteristics of the mortgage and investment loan portfolios have not changed significantly during 2008.

The Company's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and mortgage and investment loan portfolios have not changed materially since December 31, 2007.

The Company regularly reviews the credit quality of the mortgage loans securitized through CMHC or Canadian bank sponsored (Schedule I chartered banks) securitization trusts. The maximum exposure to credit

risk attributable to securitized mortgage loans is equal to the fair value of the retained interests in the securitized loans, which was $216.5 million at December 31, 2008 compared to $48.0 million in 2007. Retained interests include:

- Cash reserve accounts and rights to future excess spread which totalled $80.0 million at December 31, 2008. This portion of the retained interest is subordinated to the interests of the related CMHC or Canadian bank sponsored securitization trusts and represents the maximum exposure to credit risk for any failure of the borrowers to pay when due. Securitized mortgage loans serviced totalled $2.94 billion at December 31, 2008 compared to $2.23 billion in 2007. Uninsured non-performing loans over 90 days in these portfolios was nil at December 31, 2008 compared to $0.2 million at December 31, 2007. The Company's exposure to credit risk related to cash reserve accounts and rights to future excess spread was not significant at December 31, 2008.
- Fair value of interest rate swaps entered into by the Company with bank-sponsored securitization trusts. The outstanding notional amount of these interest rate swaps was $3.3 billion at December 31, 2008 compared to $2.2 billion in 2007. The fair value of the interest rate swaps was $136.5 million and the exposure to credit risk, which is limited to the fair value of the interest rate swaps which were in a gain position, totalled $153.6 million at December 31, 2008 compared to nil at December 31, 2007. Counterparties are all bank-sponsored securitization trusts and, as a result, management has determined that credit risk related to these interest rate swaps was not significant at December 31, 2008.

Additional information related to the Company's securitization activities and utilization of derivative contracts can be found in Notes 1, 4 and 20 to the Consolidated Financial Statements.

The Company also regularly reviews the credit ratings of derivative financial instrument counterparties. Derivative contracts are either exchange traded or negotiated in the over-the-counter market on a diversified basis with Schedule I chartered banks. The International Monetary Fund, in its October 2008 World Economic Outlook report, indicated, "(Canadian) Banks have generally weathered the financial strains so far, reflecting conservative regulation and low exposure to structured financial products, but risks remain given the strong economic and financial linkages with the United States". The Minister of Finance, in his budget speech dated January 27, 2009, indicated his intention "to provide loans, lines of credit, and the provision and payment of guarantees." The Minister of Finance also noted that he will "enable the government to inject capital directly into federal financial institutions, should such a measure ever be necessary" and added, "we do not foresee the need to use this authority."

The outstanding notional amount of derivative contracts, excluding interest rate swaps negotiated with bank-sponsored securitization trusts discussed above, was $2.7 billion at December 31, 2008 compared to $2.2 billion at December 31, 2007. The increase in the notional amount related primarily to interest rate swaps utilized in the Company's mortgage banking operations as discussed in the Market Risk section. The exposure to credit risk, which is limited to the fair value of those instruments which were in a gain position, increased to $39.4 million at December 31, 2008 from $15.9 million at December 31, 2007 primarily due to the increase in the notional amount of interest rate swaps and to changes in interest rates during 2008. This does not give effect to any netting agreements or collateral arrangements. The Company's exposure to credit risk attributable to derivative contracts which were in a gain position increased significantly in 2008. In all cases, counterparties for derivatives are Canadian Schedule I chartered banks and, as a result, management has determined that the Company's overall credit risk is not significant at December 31, 2008. Management of credit risk has not changed materially since December 31, 2007. Additional information related to the Company's utilization of derivative contracts can be found in Notes 1 and 20 to the Consolidated Financial Statements.

Market Risk

Market risk is the potential for loss to the Company from changes in the values of its financial instruments due to changes in interest rates, foreign exchange rates or equity prices. The Company's financial instruments are generally denominated in Canadian dollars, and do not have significant exposure to changes in foreign exchange rates.

The Company is exposed to interest rate risk on its loan portfolio and on certain of the derivative financial instruments used in the Company's mortgage banking and intermediary operations. The objective of the Company's asset liability management is to

control interest rate risk by actively managing its interest rate exposure. As at December 31, 2008, the total gap between one-year deposit assets and liabilities was within the Company's stated guidelines. The Company utilizes interest rate swaps in order to reduce the impact of fluctuating interest rates on its mortgage banking and intermediary operations. As part of the securitization transactions with bank-sponsored securitization trusts the Company enters into interest rate swaps with the trusts which transfers the interest rate risk to the Company. The Company is also exposed to relative movements in short-term borrowing costs. Under securitization transactions with bank-sponsored securitization trusts the Company is exposed to ABCP rates. Changes in the relationship between ABCP rates and one-month BA rates may result in fluctuations in the value of these interest rate swaps. As part of the securitization transactions under the CMB Program, the Company enters into interest rate swaps with Schedule 1 chartered bank counterparties that transfer the interest rate risk including reinvestment risk to the Company. To manage interest rate and reinvestment risks, the Company enters into offsetting interest rate swaps with Schedule I chartered bank counterparties to reduce the impact of fluctuating interest rates. As at December 31, 2008, the impact of a 100-basis point change in interest rates to Net income would have been $3.0 million.

The Company is exposed to equity price risk on its securities holdings and on the related derivative financial instruments. The Company adheres to an Investment Policy that outlines the objectives, constraints and parameters relating to its investing activities. This policy prescribes limits around the quality and concentration of investments held by the Company. The Company manages its exposure to equity price risk on a portion of its corporate securities portfolio by using a variety of derivative instruments including options and forward contracts. Management regularly reviews the Company's investments to ensure all activities are in adherence to the Investment Policy. Common shares are reviewed periodically, or more frequently when conditions warrant, to determine whether there is objective evidence of an other-than-temporary impairment in value. A significant portion of the unrealized losses occurred during the latter part of 2008 reflecting the current market environment and resulting price fluctuations. The Company holds a diversified portfolio of securities that consists primarily of well-capitalized, dividend-paying Canadian common shares that are included in the S&P TSX 60 Index. The Company has the ability and intent to hold these securities for a period of time sufficient to allow for any recovery of their fair value. As at December 31, 2008, the Company concluded that the gross unrealized losses were temporary.

The Company's securities holdings are classified as available for sale, therefore unrealized gains and losses on securities that are not part of a designated hedging relationship are recorded in Other comprehensive income until realized. As at December 31, 2008, the impact of a 10% decrease in equity prices would have been a $21.4 million unrealized loss recorded in Other comprehensive income.

The Company's exposure to and management of interest rate risk and equity price risk has not changed materially since December 31, 2007.

MARKET RISK RELATED TO ASSETS UNDER MANAGEMENT

At December 31, 2008, mutual fund industry assets in Canada as reported by the Investment Funds Institute of Canada (IFIC) were $506.9 billion, a decrease of 20.2% relative to December 31, 2007 and a decrease of 20.0% relative to September 30, 2008, reflecting the volatility experienced in both credit and capital markets. The $128.4 billion decrease in industry assets since December 31, 2007 reflected net cash outflow of $53 million, an estimated $132.9 billion in market depreciation for the year and $4.5 billion in mutual fund assets not previously reported through IFIC. The $126.7 billion decrease in industry assets since September 30, 2008 reflected net cash outflows of $10.2 billion, an estimated $116.9 billion in market depreciation for the three months and $405 million in mutual fund assets not previously reported through IFIC.

The Company has become subject to an increased risk of asset volatility from changes in the Canadian and international financial and equity markets. Changes in these markets have caused in the past, and would cause in the future, changes in the Company's assets under management, revenues and earnings. Global economic conditions, exacerbated by war or financial crises, changes in the equity market place, currency exchange rates, interest rates, inflation rates, the yield curve, defaults by derivative counterparties and other factors that are difficult to predict affect the mix, market values and levels of assets under management. The funds managed by the Company may be subject to unanticipated redemptions as a result of such events. Changing market conditions may also cause a shift

in asset mix between equity and fixed income assets, potentially resulting in a decline in the Company's revenue and earnings depending upon the nature of the assets under management and the level of management fees earned by the Company.

IGM Financial provides Consultants and independent financial advisors with a high level of service and support and a broad range of investment products based on asset classes, countries or regions, and investment management styles. These are key advantages in maintaining strong client relationships and decreasing redemption rates.

The mutual fund industry and financial advisors continue to take steps to educate Canadian investors on the merits of financial planning, diversification and long-term investing. In periods of volatility our Consultants and independent financial advisors play a key role in assisting investors to maintain perspective and focus on their long-term objectives.

Redemption rates for long-term funds are summarized in Table 16 and are discussed in the Investors Group and Mackenzie Segment Operating Results section of the MD&A.

OTHER RISK FACTORS

Distribution Risk

Investors Group Consultant Network – Investors Group derives all of its mutual fund sales through its Consultant network. Investors Group Consultants have regular direct contact with clients which can lead to a strong and personal client relationship based on the client's confidence in that individual Consultant. The market for financial advisors is extremely competitive. The loss of a significant number of key Consultants could lead to the loss of client accounts which could have an adverse effect on Investors Group's results of operations and business prospects. Investors Group is focused on growing its distribution network of Consultants as discussed in the Investors Group Review of the Business section of the MD&A.

Mackenzie – Mackenzie derives substantially all of its mutual fund sales through independent financial advisors. Mackenzie's ability to market its products is highly dependent on access to various distribution channels. These intermediaries generally offer their clients investment products in addition to, and in competition with Mackenzie. The inability to have such access could have a material adverse effect on Mackenzie's operating results and business prospects. However, Mackenzie's diverse portfolio of financial products and its long-term investment performance record, marketing, educational and service support has made Mackenzie one of Canada's leading companies serving independent financial advisors. These factors are discussed further in the Mackenzie Review of the Business section of the MD&A.

The Regulatory Environment

IGM Financial is subject to complex and changing legal, taxation and regulatory requirements, including the requirements of agencies of the federal, provincial and territorial governments in Canada which regulate the Company and its activities. The principal regulators of the Company and its subsidiaries are the Canadian Securities Administrators, the Mutual Fund Dealers Association of Canada, the Investment Industry Regulatory Organization of Canada and the Office of the Superintendent of Financial Institutions. These and other regulatory bodies regularly adopt new laws, rules, regulations and policies that apply to the Company and its subsidiaries. Regulatory standards affecting the Company and the financial services industry are increasing. The Company and its subsidiaries are subject to regular regulatory reviews as part of the normal ongoing process of oversight by the various regulators.

Failure to comply with laws, rules or regulations could lead to regulatory sanctions and civil liability, and may have an adverse reputational or financial effect on the Company. The Company manages regulatory risk through its efforts to promote a strong culture of compliance. It monitors regulatory developments and their impact on the Company. It also continues to

TABLE 16: TWELVE MONTH TRAILING REDEMPTION RATE FOR LONG-TERM FUNDS

As at December 31	2008	2007
IGM Financial Inc.		
Investors Group	7.9%	7.3%
Mackenzie	18.7%	14.1%
Counsel Group of Funds	14.8%	9.4%

IGM FINANCIAL INC

develop and maintain compliance policies, processes and oversight, including specific communications on compliance and legal matters, training, testing, monitoring and reporting. The Audit Committee of the Company receives regular reporting on compliance initiatives and issues.

Contingencies

The Company is subject to legal actions, including class actions, arising in the normal course of its business. Two class actions related to alleged market timing trading activity in mutual funds of the companies are continuing. Investors Group entered into settlement agreements in 2004 with a number of its securities regulators in respect of such market timing trading activity. Although it is difficult to predict the outcome of such legal actions, based on current knowledge and consultation with legal counsel, management does not expect the outcome of any of these matters, individually or in aggregate, to have a material adverse effect on the Company's consolidated financial position.

Acquisition Risk

The Company undertakes thorough due diligence prior to completing an acquisition, but there is no assurance that the Company will achieve the expected strategic objectives or cost and revenue synergies subsequent to an acquisition. Subsequent changes in the economic environment and other unanticipated factors may affect the Company's ability to achieve expected earnings growth or expense reductions. The success of an acquisition is dependent on retaining assets under management, clients, and key employees of an acquired company.

Model Risk

The Company uses a variety of models to assist in: the valuation of financial instruments; operational scenario testing; management of cash flows; capital management; and, assessment of potential acquisitions. These models incorporate internal assumptions, observable market inputs and available market prices. Effective controls exist over the development, implementation and application of these models.

Outlook

THE FINANCIAL SERVICES ENVIRONMENT

At December 31, 2008, mutual fund industry assets in Canada were $506.9 billion, a decrease of 20.2% relative to December 31, 2007. This $128.4 billion decrease in industry assets from December 31, 2007 reflected net cash outflow of $53.0 million, an estimated $132.9 billion in market depreciation and $4.5 billion in mutual fund assets not previously reported through the Investment Funds Institute of Canada (IFIC).

Towards the end of 2007, and throughout 2008, global stock market volatility continued as a result of significant credit concerns and slowing U.S. and global economic growth. A weak global economic outlook, continued financial market volatility and uncertainty as to the timing of a recovery is expected to create a challenging environment for the financial services industry.

In this context, the importance of a strong relationship with an advisor to keep focused on long-term financial goals is paramount. The significant role of an advisor in assisting with financial planning is appreciated by the vast majority of investing Canadians. Annual published surveys by IFIC over the last three years indicated that approximately 85% of mutual fund investors preferred to invest through an advisor and they rated the support and advice provided by their advisors very highly. A primary theme in the Company's business model is to support financial advisors as they work with clients to plan for and achieve their financial goals.

Investors Group continues to respond to the complex financial needs of its clients by delivering a diverse range of products and services in the context of personalized financial advice and its Consultants work with clients to help them understand the impact of financial market volatility on their long-term financial planning.

Mackenzie is maintaining its focus on delivering consistent long-term investment performance staying true to the multiple styles deployed in the investment process, while continuing to emphasize product innovation and communication with advisors and investors through this period of market volatility.

As Canadians weather the current economic conditions, they will increasingly be focused on their short and long-term financial planning needs. IGM Financial continues to focus on our commitment to provide quality investment advice and financial products, service innovations, effective management of the Company and long-term value for its clients and shareholders.

In addition to current market conditions, the financial services industry continues to be influenced by:

- Shifting demographics as the number of Canadians in their prime savings years continue to increase.
- Changes in investor attitudes and strong preferences to deal through an advisor.
- Changes in the regulatory environment.
- An evolving competitive landscape.
- Advancing and changing technology.

Deregulation, competition and technology have fostered a trend towards financial service providers offering a comprehensive range of products and services in-house. Traditional distinctions between bank branches, full service brokerages, financial planning firms and insurance agent forces are obscured as many of these financial service providers strive to offer comprehensive financial advice implemented through access to a broad product shelf.

Investment funds, which include mutual funds, remain the most popular financial asset class relied upon by Canadians for their retirement savings, and they represent over one-third of Canadian long-term discretionary financial assets. Management believes that investment funds are likely to remain the preferred savings vehicle of Canadians. Investment funds provide investors with the benefits of diversification, professional management, flexibility and convenience, and are available in a broad range of mandates and structures to meet most investor requirements and preferences.

THE COMPETITIVE LANDSCAPE

IGM Financial and its subsidiaries operate in a highly competitive environment. Investors Group and Investment Planning Counsel compete directly with other retail financial service providers, including other financial planning firms, as well as full service brokerages, banks and insurance companies. Investors Group, Mackenzie and the Counsel Group of Funds compete directly with other investment managers for assets under management, and also compete with other asset classes, including stocks, bonds and other passive investment vehicles, for share of the investment assets of Canadians.

Canadian banks remain a dominant force in Canadian retail financial services. The banks distribute financial products and services through their traditional bank branches, as well as through their full service and discount brokerage subsidiaries. In recent years, bank branches have increased their emphasis on both financial planning and mutual funds. In addition, each of the big six banks has one or more mutual fund management subsidiaries.

Collectively, mutual fund assets of the big six bank-owned mutual fund managers and affiliated firms represented 41% of total industry long-term mutual fund assets at December 31, 2008 and accounted for approximately 42% of the industry's long-term mutual fund net sales during 2008, down from 46% in 2007.

Mutual fund dealers and other financial planning firms represent a significant distribution channel for mutual funds in Canada. The last ten years have been characterized by significant consolidation in this sector of the industry, with many of the larger firms being purchased by mutual fund managers and insurers. Management anticipates continuing consolidation in this segment of the industry as smaller participants are acquired by larger organizations.

As a result of consolidation activity in the last several years, the Canadian mutual fund management industry is characterized by large, often vertically-integrated, firms. The industry continues to be very concentrated, with the ten largest firms and their subsidiaries representing 79.6% of industry long-term mutual fund assets and 80.1% of total mutual fund assets under management at December 31, 2008.

Management believes scale, access to distribution, and a broad product shelf are key competitive success factors in the financial services industry.

MEETING COMPETITIVE CHALLENGES

Management believes that IGM Financial is well-positioned to meet competitive challenges and capitalize on future opportunities. The Company enjoys several competitive strengths, including:

- Broad and diversified distribution with an emphasis on financial advisors.
- Broad product capabilities, leading brands and quality sub-advisory relationships.
- Enduring client relationships and the long-standing heritages and cultures of its subsidiaries.
- Significant economies of scale.
- Being part of the Power Financial group of companies, which includes Great-West Life, London Life and Canada Life.

Broad and Diversified Distribution

IGM Financial's distribution strength is a competitive advantage. In addition to owning two of Canada's largest financial planning organizations, Investors Group and Investment Planning Counsel, IGM Financial has, through Mackenzie, access to distribution through over 30,000 independent financial advisors. Mackenzie also, in its growing sub-advisory business, partners with Canadian and U.S. manufacturing and distribution complexes to provide investment management to a number of retail investment fund mandates.

Broad Product Capabilities

During 2008, as discussed earlier within the segmented results, IGM Financial's subsidiaries continued to develop and launch innovative products and strategic investment planning tools to assist advisors in building optimized portfolios for clients.

Enduring Relationships

IGM Financial enjoys significant advantages as a result of the enduring relationships that advisors enjoy with clients. In addition, the Company's subsidiaries have strong heritages and cultures which are challenging for competitors to replicate.

Significant Economies of Scale

At December 31, 2008, IGM Financial's total assets under management were $101.7 billion compared with $123.0 billion in 2007, a decrease of 17.3%. Included in the Company's total assets under management were mutual fund assets of $85.0 billion at year end 2008 compared to $109.0 billion at year end 2007. Declines in mutual fund assets during 2008 were consistent with declines in assets in the mutual fund industry. IGM Financial enjoys a 15.2% share of industry mutual fund assets under management (2007 – 15.5%) and has 21% more long-term mutual fund assets than its nearest competitor. This scale continues to assist the Company in managing its resources effectively and developing long-term growth in its businesses.

Part of Power Financial Group of Companies

As part of the Power Financial group of companies, IGM Financial benefits through cost savings from shared service arrangements, as well as through access to distribution, products, and capital.

Accounting Estimates and Policies

SUMMARY OF CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to adopt accounting policies and to make estimates and assumptions that affect amounts reported in the Consolidated Financial Statements. In applying these policies, management makes subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies are common in the mutual fund and other financial services industries; others are specific to IGM Financial's businesses and operations. IGM Financial's significant accounting policies are described in detail in Note 1 of the Consolidated Financial Statements.

Critical accounting estimates relating to the fair value of financial instruments, goodwill and intangibles, income taxes and deferred selling commissions relate to both the Investors Group and Mackenzie reportable segments while critical accounting estimates relating to employee future benefits relate only to the Investors Group reportable segment.

The major critical accounting estimates are summarized below.

- *Fair Value of Financial Instruments* – The Company's financial instruments are carried at fair value, except for loans and receivables which are carried at amortized cost. The fair value of publicly traded financial instruments is determined using published market prices. The Company also holds financial instruments, including retained interests in securitization trusts, where published market prices are not available. In these instances the values are determined using various valuation models. These valuation models maximize the use of observable market inputs where available however certain assumptions and estimates require management judgment including excess spread, prepayment rates, expected credit losses, and discount rates. Valuation methodologies and assumptions are reviewed on an ongoing basis.

  The Company's investment securities are classified as available for sale and comprise equity securities held for long-term investment, debt securities and investments in proprietary mutual funds. Unrealized gains and losses on securities that are not part of a designated hedging relationship are recorded in Other comprehensive income until realized or until the securities are other than temporarily impaired, at which time they are recorded in the Consolidated Statements of Income. Management regularly reviews the investment securities classified as available for sale to assess whether there has been an other than temporary decline in value. The Company considers such factors as the nature of the investment, the length of time and the extent to which the fair value has been below cost, the financial condition and near-term prospects of the issuer, and the Company's intent and ability to hold the investment to allow for the recovery of its fair value. A significant change in this assessment may result in unrealized losses being recognized in net income. Refer to the Consolidated Financial Position Section of this MD&A for additional information.
- *Goodwill and intangible assets* – Goodwill, indefinite life intangible assets, and definite life intangible assets are reflected in Note 7 of the Consolidated Financial Statements. The Company tests the fair value of goodwill and indefinite life intangible assets for impairment at least once a year and more frequently if an event or circumstance indicates the asset may be impaired. Goodwill impairment testing is a two step process. Goodwill is first allocated to reporting units and impairment is assessed by comparing the value of a reporting unit to its carrying amount. If the fair value of the reporting unit exceeds its carrying value, no further testing is performed. If the fair value of the reporting unit is less than its carrying value, a second test is performed to compare the fair value of goodwill to its carrying value to determine the amount of impairment loss, if any. Indefinite life intangible assets are tested for impairment by comparing their fair value to their carrying amounts. Definite life intangible assets are tested for recoverability whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

  These tests involve the use of estimates and assumptions appropriate in the circumstances. In assessing fair value, valuation models are used that include discounted cash flows, comparable acquisitions and industry trading multiples. The models use assumptions that include levels of growth in assets under management from net sales and market, pricing and margin changes, synergies achieved on acquisition, discount rates, and observable data for comparable transactions. The annual impairment testing was completed prior to the fourth quarter of 2008. During the fourth quarter of 2008, management's process of impairment review considered the impact of changing economic conditions and determined that an impairment test was not necessary.

- *Income taxes* – The provision for income taxes is determined on the basis of the anticipated tax treatment of transactions recorded in the Consolidated Statements of Income. The determination of the provision for income taxes requires interpretation of tax legislation in a number of jurisdictions. Tax planning may allow the Company to record lower income taxes in the current year and, as well, income taxes recorded in prior years may be adjusted in the current year to reflect management's best estimates of the overall adequacy of its provisions. Any related tax benefits or changes in management's best estimates are reflected in the provision for income taxes. The recognition of future tax assets depends on management's assumption that future earnings will be sufficient to realize the future benefit. The amount of the future tax asset or liability recorded is based on management's best estimate of the timing of the realization of the assets or liabilities. If our interpretation of tax legislation differs from that of the tax authorities or if timing of reversals is not as anticipated, the provision for income taxes could increase or decrease in future periods. Additional information related to income taxes is included in the Summary of Consolidated Operating Results and in Note 12 of the Consolidated Financial Statements.
- *Employee future benefits* – The Company maintains a number of employee future benefit plans. These plans include a funded registered defined benefit pension plan for all eligible employees, an unfunded supplementary executive retirement plan for certain executive officers and an unfunded post-retirement health care and life insurance plan for eligible retirees. The registered defined benefit pension plan provides pensions based on length of service and final average earnings.

  Due to the long-term nature of these plans, the calculation of benefit expenses and obligations depends on various assumptions including discount rates, expected rates of return on assets, healthcare cost trend rates, projected salary increase, retirement age, and mortality and termination rates. The discount rate assumption is determined using a yield curve of AA corporate debt securities. All other assumptions are determined by management and reviewed by independent actuaries who calculate the pension and other future benefits expenses and benefit obligations. Actual experience that differs from the actuarial assumptions will affect the amounts of the accrued benefit obligation and benefit expense.

  The Company measured its benefit obligations and its defined benefit pension plan assets as at December 31, 2008. During 2008, the performance of the defined benefit pension plan assets was negatively impacted by the current economic conditions. Pension plan asset losses were $51.2 million in 2008. Bond yields increased in 2008 in response to the uncertainty and volatility in the global financial markets thereby impacting the discount rate used to measure the Company's benefit obligations. The discount rate utilized to value the defined benefit pension plan obligations at December 31, 2008 increased to 7.50% from 5.57% at December 31, 2007. The increase in the discount rate resulted in an actuarial gain of $40.7 million which partially offset asset losses described above. These actuarial gains and losses are amortized over the expected average remaining service life of employees which decreases the volatility to pension expense recognized each year. A change of 0.25% in the discount rate utilized in 2008 would result in a change of $1.4 million in the accrued benefit obligation and $0.2 million in pension expense. A change of 0.25 % in the long-term rate of return on assets assumed for 2008 would result in a change of $0.1 million in pension expense. Additional information regarding the Company's accounting for pensions and other post-retirement benefits is included in Notes 1 and 11 of the Consolidated Financial Statements.
- *Deferred selling commissions* – Commissions paid on the sale of certain mutual fund products are deferred and amortized over a maximum period of seven years. The Company regularly reviews the carrying value of deferred selling commissions with respect to any events or circumstances that indicate impairment. Among the tests performed by the Company to assess recoverability is the comparison of the future economic benefits derived from the deferred selling commission asset in relation to its carrying value. At December 31, 2008, there were no indications of impairment to deferred selling commissions.

CHANGES IN ACCOUNTING POLICIES

On January 1, 2008, the Company adopted CICA 1535, Capital Disclosures. This standard requires the disclosure of information related to the objectives, policies and processes for managing capital. See the Capital Resources section of this MD&A and Note 15 to the Consolidated Financial Statements for the disclosures required under CICA 1535.

On January 1, 2008, the Company adopted CICA 3862, Financial Instruments – Disclosure, and CICA 3863, Financial Instruments – Presentation,

replacing CICA 3861. CICA 3862 requires enhanced disclosure of the nature and extent of the risks arising from financial instruments and how the Company manages those risks. CICA 3863 carries forward unchanged the presentation requirements of CICA 3861 with respect to financial instruments. See the Financial Instruments section of this MD&A and Note 19 to the Consolidated Financial Statements for the disclosures required under CICA 3862.

On January 1, 2007, the Company adopted four new accounting standards: CICA 3855, Financial Instruments – Recognition and Measurement, CICA 3865, Hedges, CICA 1530, Comprehensive Income, and CICA 3251, Equity.

These standards require that all financial assets be classified in one of the following categories: available for sale, held to maturity, trading or loans and receivables. The standards require that all financial assets be carried at fair value in the Consolidated Balance Sheets, except loans and receivables including mortgages and securities classified as held to maturity, which are carried at amortized cost using the effective interest method. Financial liabilities must be classified as either trading, which are carried at fair value, or other than held for trading, which are carried at amortized cost using the effective interest method.

The Consolidated Statements of Comprehensive Income have been included in the Company's financial statements. The Consolidated Statements of Changes in Shareholders' Equity have replaced the Consolidated Statements of Retained Earnings in the Company's financial statements. Unrealized gains and losses on financial assets classified as available for sale, the effective portion of changes in the fair value of cash flow hedging instruments and other comprehensive income amounts, including unrealized foreign currency translation gains and losses related to the Company's investment in its affiliate, are recorded in the Consolidated Statements of Comprehensive Income on a net of tax basis. Accumulated other comprehensive income forms part of Shareholders' equity.

On January 1, 2007, the Company's securities portfolio and funds held in escrow were classified as available for sale. The loans portfolio was classified as loans and receivables and is carried at amortized cost. Long-term debt, preferred share liabilities and deposits and certificates were classified as other than held for trading and are carried at amortized cost.

On January 1, 2007, transitional adjustments were recorded in the opening balance of Accumulated other comprehensive income to recognize the fair value of financial assets classified as available for sale and hedging instruments designated as cash flow hedges. The recognition of the fair value of available for sale securities increased Securities by $95.7 million and increased funds held in escrow included in Other assets by $3.5 million. The recognition of the fair value of derivatives designated as cash flow hedges increased Other liabilities by $42.6 million. Accumulated other comprehensive income increased by $46.3 million on an after tax basis. The foreign currency translation balance of $39.8 million related to the Company's investment in its affiliate was reclassified from Retained earnings to Accumulated other comprehensive income. Prior periods were not restated except for the reclassification of the foreign currency translation balances. There was no impact to net income on transition as a result of implementation of the standards.

FUTURE ACCOUNTING CHANGES

Goodwill and Intangible Assets

On January 1, 2009, the Company adopted CICA 3064, Goodwill and Intangible Assets. This standard contains revised guidance for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this standard is not expected to have a significant impact on the Company's financial position or results of operations.

International Financial Reporting Standards (IFRS)

The Canadian Accounting Standards Board has announced that Canadian GAAP will be replaced by IFRS, as published by the International Accounting Standards Board. Publicly accountable enterprises will be required to adopt IFRS on or by January 1, 2011. The Company will issue its initial Consolidated Financial Statements under IFRS, including comparative information, for the quarter ended March 31, 2011.

The Company has developed an IFRS changeover plan which addresses key elements of the convergence to IFRS and includes a formal project governance structure.

The Company has identified the differences between IFRS and Canadian GAAP that are expected to impact the Company, and is in the process of evaluating the impacts of the changeover on all business activities, accounting policies, information technology and data systems, internal controls over financial reporting, and disclosure controls and procedures. Currently it is not possible to fully determine the impact to the financial statements and any potential business impacts.

As the Company's changeover plans are being developed, requirements for financial reporting resources and training are being modified appropriately.

Disclosure Controls and Procedures

Based on their evaluations as of December 31, 2008, the Co-Presidents and Chief Executive Officers and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective in providing reasonable assurance that (a) material information relating to the issuer is made known to the Co-Presidents and Chief Executive Officers and the Chief Financial Officer by others, particularly during the period in which the annual filings are being prepared, and (b) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Internal Controls Over Financial Reporting

Based on their evaluations as of December 31, 2008, the Co-Presidents and Chief Executive Officers and the Chief Financial Officer have concluded that the Company's internal controls over financial reporting are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. During the fourth quarter of 2008, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Other Information

TRANSACTIONS WITH RELATED PARTIES

IGM Financial enters into transactions with Great-West Life, London Life Insurance Company (London Life) and The Canada Life Assurance Company (Canada Life), which are all subsidiaries of its affiliate, Lifeco. These transactions are in the normal course of business and have been recorded at the agreed upon exchange amounts as described below.

- The Company provided to and received from Great-West Life certain administrative services enabling each organization to take advantage of economies of scale and areas of expertise.
- The Company distributed insurance products under a distribution agreement with Great-West Life and Canada Life and received $39.7 million in distribution fees (2007 – $31.8 million). The Company received $13.0 million (2007 – $14.2 million) related to the provision of sub-advisory services for certain Great-West Life, London Life and Canada Life segregated mutual funds. The Company paid $34.1 million (2007 – $30.9 million) to London Life related to the distribution of certain mutual funds of the Company.
- In order to manage its overall liquidity position, the Company's mortgage banking operation is active in the securitization market and also sells residential mortgage loans to third parties, on a fully serviced basis. During 2008, the Company sold residential mortgage loans to Great-West Life and London Life for $143.4 million compared to $153.7 million in 2007.

For further information on transactions involving related parties, see Notes 5 and 24 of the Consolidated Financial Statements.

OUTSTANDING SHARE DATA

Outstanding common shares of IGM Financial as at December 31, 2008 totalled 262,364,622. As at February 12, 2009, outstanding common shares totalled 262,401,722.

SEDAR

Additional information relating to IGM Financial, including the Company's most recent financial statements and Annual Information Form, is available at www.sedar.com.

Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

IGM FINANCIAL INC.

Management's Responsibility for Financial Reporting

The consolidated financial statements of IGM Financial Inc. and related financial information have been prepared by Management, which is responsible for the integrity, objectivity and reliability of the data presented. This responsibility includes selecting appropriate accounting principles and making judgments and estimates consistent with Canadian generally accepted accounting principles. Financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

Systems of internal control and supporting procedures are maintained to provide reasonable assurance of the reliability of financial information and the safeguarding of all assets controlled by the Company. These controls and supporting procedures include quality standards in hiring and training employees, the establishment of organizational structures providing a well-defined division of responsibilities and accountability for performance, and the communication of policies and guidelines through the organization. Internal controls are reviewed and evaluated by extensive internal audit programs, which are subject to scrutiny by the shareholders' auditors.

Ultimate responsibility for the consolidated financial statements rests with the Board of Directors. The Board is assisted in discharging this responsibility by an Audit Committee, consisting of directors who are not officers or employees of the Company. This Committee reviews the consolidated financial statements and recommends them for approval by the Board. In addition, the Audit Committee reviews the recommendations of the internal auditor and the shareholders' auditors for improvements in internal control and the action of Management to implement such recommendations. In carrying out its duties and responsibilities, the Committee meets regularly with Management and with both the internal auditor and the shareholders' auditors to review the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have been properly discharged.

Deloitte & Touche LLP, independent auditors appointed by the shareholders, have examined the consolidated financial statements of the Company in accordance with Canadian generally accepted auditing standards, and have expressed their opinion upon the completion of their examination in their Report to the Shareholders. The shareholders' auditors have full and free access to the Audit Committee to discuss their audit and related findings as to the integrity of the Company's financial reporting and the adequacy of the systems of internal control.

Murray J. Taylor
Co-President and Chief Executive Officer

Charles R. Sims
Co-President and Chief Executive Officer

Gregory D. Tretiak
Executive Vice-President, Finance

Auditors' Report

To the Shareholders, IGM Financial Inc.

We have audited the consolidated balance sheets of IGM Financial Inc. as at December 31, 2008 and 2007 and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Winnipeg, Manitoba
February 12, 2009

Consolidated Statements of Income

For the years ended December 31 *(in thousands of dollars, except shares and per share amounts)*	2008	2007
Fee and net investment income		
Management	**$ 1,867,223**	$ 2,096,032
Administration	**349,249**	349,428
Distribution	**286,044**	255,501
Net investment income and other	**202,172**	194,146
Total fee and net investment income	**2,704,688**	2,895,107
Operating expenses		
Commission expense	**906,271**	947,053
Non-commission expense	**647,854**	622,988
Interest expense	**90,604**	88,330
Total operating expenses	**1,644,729**	1,658,371
	1,059,959	1,236,736
Proportionate share of affiliate's impairment charge, net of tax *(Note 5)*	**60,346**	–
Income before income taxes, non-controlling interest and proportionate share of affiliate's gain	**999,613**	1,236,736
Income taxes *(Note 12)*	**292,551**	354,682
Income before non-controlling interest and proportionate share of affiliate's gain	**707,062**	882,054
Non-controlling interest	**1,266**	2,919
Net income before proportionate share of affiliate's gain	**705,796**	879,135
Proportionate share of affiliate's gain *(Note 5)*	**25,003**	–
Net income	**$ 730,799**	$ 879,135
Average number of common shares *(in thousands) (Note 22)*		
– Basic	**263,323**	264,604
– Diluted	**264,808**	267,303
Earnings per share *(in dollars) (Note 22)*		
Excluding proportionate share of affiliate's gain		
– Basic	**$ 2.68**	$ 3.32
– Diluted	**$ 2.67**	$ 3.29
Including proportionate share of affiliate's gain		
– Basic	**$ 2.78**	$ 3.32
– Diluted	**$ 2.76**	$ 3.29

(See accompanying notes to consolidated financial statements.)

IGM FINANCIAL INC.

Consolidated Balance Sheets

As at December 31 *(in thousands of dollars)*	2008	2007
Assets		
Cash and cash equivalents	**$ 1,232,171**	$ 1,180,284
Securities *(Note 2)*	**537,653**	696,279
Loans *(Note 3)*	**589,564**	553,947
Investment in affiliate *(Note 5)*	**574,442**	560,683
Deferred selling commissions	**940,603**	989,784
Other assets *(Note 6)*	**656,877**	465,089
Intangible assets *(Note 7)*	**1,110,370**	1,028,731
Goodwill *(Note 7)*	**2,592,317**	2,383,798
	$ 8,233,997	$ 7,858,595
Liabilities		
Deposits and certificates *(Note 8)*	**$ 958,999**	$ 856,895
Bankers' acceptances *(Note 9)*	**286,615**	–
Other liabilities *(Note 10)*	**907,716**	863,961
Future income taxes *(Note 12)*	**371,746**	414,756
Long-term debt *(Note 13)*	**1,200,000**	1,200,000
Preferred shares *(Note 14)*	**360,000**	360,000
	4,085,076	3,695,612
Shareholders' Equity		
Common shares	**1,511,110**	1,504,290
Contributed surplus	**29,115**	22,175
Retained earnings	**2,781,755**	2,678,618
Accumulated other comprehensive loss	**(173,059)**	(42,100)
	4,148,921	4,162,983
	$ 8,233,997	$ 7,858,595

(See accompanying notes to consolidated financial statements.)

On behalf of the Board

Murray J. Taylor
Director

Donald F. Mazankowski
Director

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31 *(in thousands of dollars)*	2008	2007
Common shares *(Note 14)*		
Balance, beginning of year	**$ 1,504,290**	$ 1,493,954
Issued under stock option plan	**22,996**	18,229
Purchased for cancellation	**(16,176)**	(7,893)
Balance, end of year	**1,511,110**	1,504,290
Contributed surplus		
Balance, beginning of year	**22,175**	15,339
Stock options		
Current period expense	**7,976**	8,249
Exercised	**(1,036)**	(1,413)
Balance, end of year	**29,115**	22,175
Retained earnings		
Balance, beginning of year		
As previously reported	**2,678,618**	2,308,380
Reclassification to accumulated other comprehensive income *(Note 1)*	**–**	39,777
As restated	**2,678,618**	2,348,157
Net income	**730,799**	879,135
Common dividends	**(526,139)**	(469,545)
Common share cancellation excess and other *(Note 14)*	**(101,523)**	(79,129)
Balance, end of year	**2,781,755**	2,678,618
Accumulated other comprehensive income (loss) *(Note 16)*		
Balance, beginning of year	**(42,100)**	(39,777)
Change in accounting policy *(Note 1)*	**–**	46,339
Other comprehensive loss	**(130,959)**	(48,662)
Balance, end of year	**(173,059)**	(42,100)
Total Shareholders' Equity	**$ 4,148,921**	$ 4,162,983

(See accompanying notes to consolidated financial statements.)

IGM FINANCIAL INC.

Consolidated Statements of Comprehensive Income

For the years ended December 31 *(in thousands of dollars)*	2008	2007
Net income	**$ 730,799**	$ 879,135
Other comprehensive income (loss), net of tax *(Note 16)*		
Net unrealized gains (losses) on available for sale securities:		
Unrealized gains (losses)	**(120,845)**	1,273
Reclassification adjustment for (gains) losses included in net income	**(9,520)**	(64,313)
	(130,365)	(63,040)
Net unrealized gains (losses) on cash flow hedges		
Unrealized gains (losses)	–	1,952
Reclassification adjustment for (gain) loss included in net income	–	33,083
	–	35,035
Other comprehensive loss (OCL) related to investment in affiliate and other	**(594)**	(20,657)
Other comprehensive income (loss)	**(130,959)**	(48,662)
Comprehensive income	**$ 599,840**	$ 830,473

(See accompanying notes to consolidated financial statements.)

IGM FINANCIAL INC.

Consolidated Statements of Cash Flows

For the years ended December 31 *(in thousands of dollars)*	2008	2007
Operating activities		
Net income	**$ 730,799**	$ 879,135
Adjustments to determine net cash from operating activities		
Future income taxes	**(29,290)**	(31,690)
Commission amortization	**319,305**	332,184
Amortization of capital and intangible assets	**31,603**	25,699
Proportionate share of affiliate's impairment charge	**60,346**	–
Proportionate share of affiliate's gain	**(25,003)**	–
Changes in operating assets and liabilities and other	**(228,806)**	(84,616)
	858,954	1,120,712
Commissions paid	**(270,124)**	(347,898)
	588,830	772,814
Financing activities		
Net increase in deposits and certificates	**102,104**	79,390
Increase in short-term borrowings	**–**	99,845
Net proceeds on bankers' acceptances	**286,615**	–
Issue of common shares	**21,960**	16,816
Common dividends paid	**(513,205)**	(453,300)
Common shares purchased for cancellation	**(118,207)**	(71,574)
	(220,733)	(328,823)
Investing activities		
Acquisition of Saxon Financial Inc., less cash and cash equivalents acquired *(Note 26)*	**(264,715)**	–
Purchase of securities	**(302,573)**	(635,133)
Proceeds from the sale of securities	**334,744**	126,835
Net increase in loans	**(1,491,559)**	(1,347,710)
Proceeds from securitizations *(Note 4)*	**1,441,370**	1,286,900
Net additions to capital assets	**(33,239)**	(19,594)
Other	**(238)**	(473)
	(316,210)	(589,175)
Increase (decrease) in cash and cash equivalents	**51,887**	(145,184)
Cash and cash equivalents, beginning of year	**1,180,284**	1,325,468
Cash and cash equivalents, end of year	**$ 1,232,171**	$ 1,180,284
Cash	**$ 118,641**	$ 123,649
Cash equivalents	**1,113,530**	1,056,635
	$ 1,232,171	$ 1,180,284
Supplemental disclosure of cash flow information		
Amount of interest paid during the year	**$ 129,581**	$ 131,901
Amount of income taxes paid during the year	**$ 414,612**	$ 392,396

(See accompanying notes to consolidated financial statements.)

IGM FINANCIAL INC.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements of IGM Financial Inc. (Company) have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements. Key components of the financial statements requiring management to make estimates include goodwill, intangible assets, income taxes, deferred selling commissions and employee future benefits. Actual results may differ from such estimates.

Basis of consolidation

The Consolidated Financial Statements include the accounts of the Company and all subsidiaries on a consolidated basis after elimination of intercompany transactions and balances.

The equity method is used to account for the Company's investment in Great-West Lifeco Inc. (Lifeco), an affiliated company. Both companies are controlled by Power Financial Corporation.

Changes in accounting policies – financial instruments

On January 1, 2008, the Company adopted CICA 1535, Capital Disclosures. This standard requires the disclosure of information related to the objectives, policies and processes for managing capital.

On January 1, 2008, the Company adopted CICA 3862, Financial Instruments – Disclosures and CICA 3863, Financial Instruments – Presentation, replacing CICA 3861. CICA 3862 requires enhanced disclosure of the nature and extent of the risks arising from financial instruments and how the Company manages those risks. CICA 3863 carries forward unchanged the presentation requirements of CICA 3861 with respect to financial instruments.

On January 1, 2007, the Company adopted four new accounting standards: CICA 3855, Financial Instruments – Recognition and Measurement, CICA 3865, Hedges, CICA 1530, Comprehensive Income, and CICA 3251, Equity.

These standards require that all financial assets be classified in one of the following categories: available for sale, held to maturity, trading or loans and receivables. The standards require that all financial assets be carried at fair value in the Consolidated Balance Sheets, except loans and receivables including mortgages and securities classified as held to maturity, which are carried at amortized cost using the effective interest method. Financial liabilities must be classified as either trading, which are carried at fair value, or other than held for trading, which are carried at amortized cost using the effective interest method.

The Consolidated Statements of Comprehensive Income have been included in the Company's financial statements. The Consolidated Statements of Changes in Shareholders' Equity replaced the Consolidated Statements of Retained Earnings in the Company's financial statements. Unrealized gains and losses on financial assets classified as available for sale, the effective portion of changes in the fair value of cash flow hedging instruments and other comprehensive income amounts, including unrealized foreign currency translation gains and losses related to the Company's investment in its affiliate, are recorded in the Consolidated Statements of Comprehensive Income on a net of tax basis. Accumulated other comprehensive income forms part of Shareholders' equity.

On January 1, 2007, the Company's securities portfolio and funds held in escrow were classified as available for sale. The loans portfolio was classified as loans and receivables and is carried at amortized cost. Long-term debt, preferred share liabilities, and deposits and certificates were classified as other than held for trading and are carried at amortized cost.

On January 1, 2007, transitional adjustments were recorded in the opening balance of Accumulated other comprehensive income to recognize the fair value of financial assets classified as available for sale and hedging instruments designated as cash flow hedges. The recognition of the fair value of available for sale securities increased Securities by $95.7 million and increased funds held in escrow included in Other assets by $3.5 million. The recognition of the fair value of derivatives designated as cash flow hedges increased Other liabilities by $42.6 million. Accumulated other comprehensive income increased by $46.3 million on an after tax basis. The foreign currency translation balance of $39.8 million related to the Company's investment in its affiliate was reclassified from Retained earnings to Accumulated other comprehensive income. Prior periods were not restated except for the reclassification of the foreign currency translation balances. There was no impact to net income on transition as a result of implementation of the standards. The transitional provisions of the financial instruments standards required that prior periods not be restated with the exception of cumulative translation balances. This resulted in all derivative instruments, securities and funds held in escrow being recorded at fair value on the balance sheet beginning January 1, 2007.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Management fees are based on the net asset value of mutual fund assets under management and are recognized on an accrual basis when the service is performed. Administration fees are also recognized on an accrual basis when the service is performed. Distribution revenue derived from mutual fund and securities transactions are recognized on a trade date basis. Distribution revenue derived from insurance and other financial services transactions are recognized on an accrual basis.

Cash and cash equivalents

Cash and cash equivalents comprise cash and temporary investments consisting of highly liquid investments with short-term maturities. Interest income is recorded on an accrual basis in Net investment income and other in the Consolidated Statements of Income.

Securities

Investment securities, which are recorded on a trade date basis, are classified as either available for sale or held for trading.

Available for sale securities comprise equity securities held for long-term investment, investments in proprietary mutual funds and fixed income securities. Realized gains and losses on disposal of available for sale securities, dividends declared, interest income, as well as the amortization of discounts or premiums using the effective interest method, are recorded in Net investment income and other in the Consolidated Statements of Income. Unrealized gains and losses on securities designated as part of a fair value hedging relationship are recorded in Net investment income and other in the Consolidated Statements of Income. Unrealized gains and losses on securities not designated as part of a hedging relationship or on securities designated as part of a cash flow hedging relationship are recorded in Other comprehensive income until realized or until the securities are other than temporarily impaired, at which time they are recorded in the Consolidated Statements of Income.

Held for trading securities comprise National Housing Act Mortgage Backed Securities (NHA MBS). Unrealized and realized gains and losses on held for trading securities as well as interest income are recorded in Net investment income and other in the Consolidated Statements of Income.

Loans

Loans are classified as loans and receivables and are carried at amortized cost less an allowance for credit losses. Interest income is accounted for on the accrual basis for all loans other than impaired loans and is recorded in Net investment income and other in the Consolidated Statements of Income.

A loan is classified as impaired when, in the opinion of management, there no longer is reasonable assurance of the timely collection of the full amount of principal and interest. A loan is also classified as impaired when interest or principal is contractually past due 90 days, except in circumstances where management has determined that the collectibility of principal and interest is not in doubt. Once a loan is classified as impaired, any accrued and unpaid interest income is reversed and charged against interest income in the current period. Thereafter interest income is recognized on a cash basis.

The Company maintains an allowance for credit losses which is considered adequate by management to absorb all credit related losses in its portfolio. Specific allowances are established as a result of reviews of individual loans. There is a second category of allowance, the designated general allowance, which is allocated against sectors rather than specifically against individual loans. This allowance is established where a prudent assessment by management suggests that losses have occurred but where such losses cannot yet be identified on an individual loan basis.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Securitizations

The Company periodically sells residential mortgages through Canada Mortgage and Housing Corporation (CMHC) or Canadian bank sponsored securitization trusts that in turn issue securities to investors. During the second quarter of 2008, the Company commenced utilization of the National Housing Act Mortgage Backed Securities program (NHA MBS). NHA MBS are sold to a trust that issues securities to investors through the Canada Mortgage Bond Program (CMB Program), which is sponsored by CMHC. The Company retains servicing responsibilities and certain elements of recourse with respect to credit losses on transferred loans. The Company also sells NHA-insured mortgages through the issuance of mortgage-backed securities.

Transfers of loans are accounted for as sales provided that control over the transferred loans has been surrendered and consideration other than beneficial interests in the transferred loans has been received in exchange. The loans are removed from the Consolidated Balance Sheets and a gain or loss is recognized in income immediately based on the carrying value of the loans transferred. The carrying value is allocated between the assets transferred and the retained interests in proportion to their fair values at the date of transfer. To obtain the fair value of the Company's retained interests, quoted market prices are used if available. However, since quotes are generally not available for retained interests, the estimated fair value is based on the present value of future expected cash flows using management's best estimates of key assumptions such as prepayment rates, excess spread, expected credit losses and discount rates commensurate with the risks involved. Retained interests are classified as held for trading and any realized or unrealized gains and losses are recorded in Net investment income and other in the Consolidated Statements of Income. The Company continues to service the loans transferred. As a result, a servicing liability is recognized and amortized over the expected term of the transferred loans as servicing fees.

For all sales of loans, the gains or losses and the servicing fee revenue are reported in Net investment income and other in the Consolidated Statements of Income. The retained interests in the securitized loans are recorded in Other assets and the servicing liability is recorded in Other liabilities on the Consolidated Balance Sheets.

Deferred selling commissions

Commissions paid on the sale of certain mutual funds are deferred and amortized over a maximum period of seven years. Commissions paid on the sale of deposits are deferred and amortized over a maximum amortization period of five years. The Company regularly reviews the carrying value of deferred selling commissions with respect to any events or circumstances that indicate impairment. Among the tests performed by the Company to assess recoverability is the comparison of the future economic benefits derived from the deferred selling commission asset in relation to its carrying value. At December 31, 2008, there were no indications of impairment to deferred selling commissions.

Capital assets

Capital assets, which are included in Other assets, are recorded at cost of \$344.5 million (2007 – \$311.5 million), less accumulated amortization of \$243.1 million (2007 – \$227.6 million). Buildings and related equipment and furnishings are amortized on a straight-line basis over their estimated useful lives, which range from 2 to 7 years for equipment and furnishings and 50 years for the building. Capital assets are tested for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill and intangible assets

The Company tests the fair value of goodwill and indefinite life intangible assets for impairment at least once a year and more frequently if an event or circumstance indicates the asset may be impaired. Goodwill impairment testing is a two step process. Goodwill is first allocated to reporting units and impairment is assessed by comparing the value of a reporting unit to its carrying amount. If the fair value of the reporting unit exceeds its carrying value, no further testing is performed. If the fair value of the reporting unit is less than its carrying value, a second test is performed to compare the fair value of goodwill to its carrying value to determine the amount of impairment loss, if any. Indefinite life intangible assets are tested for impairment by comparing their fair value to their carrying amounts. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives, not exceeding a period of 20 years. Definite life intangible assets are tested for recoverability whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

These tests involve the use of estimates and assumptions appropriate in the circumstances. In assessing fair value, valuation models are used that include discounted cash flows, comparable acquisitions and industry trading multiples. The models use assumptions that include levels of growth in assets under management from net sales and market, pricing and margin changes, synergies achieved on acquisition, discount rates, and observable data for comparable transactions. The Company has completed its annual impairment testing on goodwill, indefinite life intangible assets and finite life intangible assets and has determined that no impairment charge was necessary.

Employee future benefits

The Company maintains a number of employee future benefit plans. These plans include a funded defined benefit pension plan for all eligible employees, an unfunded supplementary executive retirement plan (SERP) for certain executive officers, and an unfunded post-retirement health care and life insurance plan for eligible retirees.

The defined benefit pension plan provides pensions based on length of service and final average earnings. An actuarial valuation is performed for funding purposes every three years. The most recent actuarial valuation was completed as at December 31, 2007 and the next required valuation will be completed based on a measurement date of December 31, 2010.

The cost of pension and other post-retirement benefits earned by employees is actuarially determined using the projected unit credit method prorated on service based upon management's assumptions about the expected long-term rate of return on plan assets, discount rates, compensation increases, retirement ages of employees, mortality and expected health care costs. The discount rate used to value liabilities is based on market rates at the measurement date. Plan assets are valued at fair value for purposes of calculating the expected long-term rate of return. The defined benefit pension plan is invested in proprietary equity, balanced and fixed income mutual funds.

Benefit expense or income, which is included in Non-commission expense, includes the cost of pension or other post-retirement benefits provided in respect of the current year's service, interest cost on the accrued benefit liability, the expected return on plan assets and the amortization of actuarial gains or losses. Actuarial gains or losses with respect to the defined benefit pension plan and other post-retirement benefits are amortized over the expected average remaining service life of employees. Actuarial gains or losses with respect to the SERP are amortized over the expected remaining life of the members of the plan. These periods range from 9 to 18 years for the various benefit plans.

The accrued benefit asset or liability represents the cumulative difference between the expense and funding contributions and is included in Other assets or Other liabilities.

Stock-based compensation and other stock-based payments

The Company uses the fair value based method to account for stock options granted to employees. The fair value of stock options is determined on each grant date. Compensation expense is recognized over the period that the stock options vest, with a corresponding increase in Contributed surplus. When stock options are exercised, the proceeds together with the amount recorded in Contributed surplus are added to Share capital.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income taxes

The Company follows the liability method in accounting for income taxes whereby future income tax assets and liabilities reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases. Future income tax assets and liabilities are measured based on the enacted or substantively enacted tax rates which are anticipated to be in effect when the temporary differences are expected to reverse.

Preferred share liabilities

The preferred shares, which can be settled at the Company's option by issuing a variable number of its own equity instruments, are classified as other liabilities. Preferred dividends are recorded in Interest expense in the Consolidated Statements of Income.

Earnings per share

Basic earnings per share is determined by dividing Net income by the average number of common shares outstanding for the year. Diluted earnings per share is determined using the same method as basic earnings per share except that the average number of common shares outstanding includes the potential dilutive effect of outstanding stock options granted by the Company as determined by the treasury method.

Derivative financial instruments

Derivative financial instruments are utilized by the Company in the management of equity market and interest rate exposures. The Company does not utilize derivative financial instruments for speculative purposes.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the Consolidated Balance Sheets or to anticipated future transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Derivative financial instruments are recorded at fair value in the Consolidated Balance Sheets and the changes in fair value are recorded in the Consolidated Statements of Income, except as described above for certain hedging derivatives.

The Company manages its exposure to market risk on its securities portfolio by either entering into forward sale contracts, purchasing a put option or by simultaneously purchasing a put option and writing a call option on the same security. Derivative instruments specifically designated as a hedge and meeting the criteria for hedge effectiveness offset the changes in fair values or cash flows of hedged items. A hedge must be designated as a cash flow hedge, fair value hedge, or a hedge of a net investment in self-sustaining foreign operations. A fair value hedge requires the change in fair value of the hedging derivative and the change in fair value of the hedged item relating to the hedged risk to both be recorded in the Consolidated Statements of Income. A cash flow hedge requires the change in fair value of the derivative, to the extent effective, to be recorded in Other comprehensive income, which is reclassified to the Consolidated Statements of Income when the hedged transaction impacts earnings. The change in fair value of the ineffective portion of the derivative in a cash flow hedge must be recorded in the Consolidated Statements of Income.

The Company enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its mortgage banking and intermediary operations. These swap agreements require the periodic exchange of net interest payments without the exchange of the notional principal amount on which the payments are based. Changes in fair value are recorded in Net investment income and other in the Consolidated Statements of Income.

The Company also enters into total return swaps to manage its exposure to fluctuations in the total return of its common shares related to deferred compensation arrangements. These swap agreements require the periodic exchange of net contractual payments without the exchange of the notional principal amounts on which the payments are based. These instruments are not designated as hedges. Changes in fair value are recorded in Non-commission expense in the Consolidated Statements of Income.

Non-qualifying derivatives or derivatives not designated as hedges continue to be utilized on a basis consistent with the risk management policies of the Company and are monitored by the Company for effectiveness as economic hedges even if specific hedge accounting requirements are not met.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Future accounting changes

On January 1, 2009, the Company will adopt CICA 3064, Goodwill and Intangible Assets. This standard contains revised guidance for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this standard is not expected to have a significant impact on the Company's financial position or results of operations.

The Canadian Accounting Standards Board has announced that Canadian GAAP will be replaced by International Financial Reporting Standards (IFRS), as published by the International Accounting Standards Board. Publicly accountable enterprises will be required to adopt IFRS on or by January 1, 2011. The Company will issue its initial Consolidated Financial Statements under IFRS, including comparative information, for the quarter ended March 31, 2011.

Comparative figures

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.

2. SECURITIES

	2008		2007	
	COST	FAIR VALUE	COST	FAIR VALUE
Common shares	**$ 404,928**	**$ 261,769**	$ 614,102	$ 626,719
Investments in proprietary mutual funds	**33,360**	**28,518**	26,981	29,269
Fixed income securities	**229,969**	**231,289**	40,291	40,291
NHA MBS	**15,788**	**16,077**	–	–
	$ 684,045	**$ 537,653**	$ 681,374	$ 696,279

Common shares are classified as available for sale. Unrealized gains and losses on securities not designated as part of a hedging relationship are recorded in Other comprehensive income until realized. As at December 31, 2008, net unrealized losses on common shares were $143.2 million which was comprised of unrealized gains of $0.6 million and unrealized losses of $143.8 million. Unrealized gains and losses on common shares net of hedges were $14.6 million and $126.2 million respectively and are reported in Accumulated other comprehensive income. Common shares are measured periodically, or more frequently when conditions warrant, to determine whether there is objective evidence of an other-than-temporary impairment in value. The majority of unrealized losses occurred during the latter part of 2008 reflecting the current market environment and resulting price fluctuations. The Company holds a diversified portfolio of securities that consists primarily of well-capitalized, dividend-paying Canadian common shares that are included in the S&P TSX 60 Index. The Company has the ability and intent to hold these securities for a period of time sufficient to allow for any recovery of their fair value. As at December 31, 2008, the Company concluded that the gross unrealized losses were temporary.

Fixed income securities of $231.3 million at December 31, 2008 are comprised primarily of Canadian chartered bank senior deposit notes and bankers' acceptances of $191.7 million and $35.3 million in non-bank-sponsored asset – backed commercial paper (ABCP). The Company's original investment in ABCP totalled $50.2 million. The Company reduced the fair value of the ABCP to $35.3 million by recording charges totalling $9.9 million in 2007 and charges of $2.5 million in each of the second and third quarters of 2008.

2. SECURITIES *(continued)*

On December 11, 2008, the Pan-Canadian Investors Committee (the Committee) announced that an agreement in principle had been reached among various key participants in the ABCP restructuring to make a number of significant changes to the restructuring plan. The Committee announced on December 24, 2008 that the governments of Canada and Quebec, with participation by Ontario and Alberta, together with certain participants in the restructuring, will provide additional margin facilities to support the proposed restructuring plan. The Superior Court of Ontario granted the Plan Implementation Order on January 12, 2009 and the Plan Implementation Certificate was certified by the Court on January 21, 2009, effectively closing the transaction.

The restructuring plan extends the maturity of the ABCP to provide for a maturity similar to that of the underlying assets. Trusts with ABCP supported in whole or in part by synthetic assets will pool their assets and note holders will receive senior Class A-1 and Class A-2 and subordinated Class B and Class C long-term floating rate notes. Trusts with ABCP supported by assets that have an exposure to U.S. mortgages and sub-prime mortgages for which the credit quality is uncertain, will be restructured on a series-by-series basis, with each series maintaining its separate exposure to its own assets. Note holders with exposure to this asset class will receive IA Tracking long-term floating rate notes.

A significant portion of the Company's investment in ABCP was represented by a combination of leveraged collateralized debt, synthetic assets and traditional securitized assets. The Company's allocation of senior Class A-1 and Class A-2 long-term floating rate notes represent in excess of 75% of the Company's original investment in ABCP. The senior notes have been assigned a rating of A by the Dominion Bond Rating Service and have a legal maturity date of July 15, 2056, however the expected repayment date of the notes is January 22, 2017.

The Company's valuation of the ABCP was based on its assessment of the prevailing conditions at December 31, 2008. The estimated fair value reflects the allocation of the floating rate notes the Company received which have a duration of approximately 7 years. The Company estimated the fair value of the senior and subordinated notes by discounting the expected cash flows at yields comparable to prevailing market yields and credit spreads available for securities with similar characteristics to the restructured notes and other market inputs reflecting the Company's best available information. The fair value of the IA Tracking long-term floating rate notes was estimated using observable market inputs from independent pricing sources or by discounted expected cash flows reflecting the Company's best available information, including reference to prevailing market yields on debt instruments in the Canadian market. As at December 31, 2008, an increase in the estimated discount rates of 100 basis points would reduce net income by $2.5 million.

The Company received its replacement notes in January 2009. The allocation of the notes received by the Company was consistent with the details previously provided by the Committee in the Information Certificate. The closing of the restructuring transaction is not expected to have a significant financial impact on the Company's operations or financial condition.

3. LOANS

	TERM TO MATURITY				
	1 YEAR OR LESS	1–5 YEARS	OVER 5 YEARS	2008 TOTAL	2007 TOTAL
Residential mortgages	$ 62,563	$ 221,164	$ 2,575	$ 286,302	$ 251,785
Commercial mortgages	32	685	–	717	891
	62,595	221,849	2,575	287,019	252,676
Investment loans	278,828	15,216	16,473	310,517	308,902
	$ 341,423	$ 237,065	$ 19,048	597,536	561,578
Less: General allowance				7,972	7,631
				$ 589,564	$ 553,947
Impaired loans included above				$ 498	$ 1,159
Less: General allowance				7,972	7,631
				$ (7,474)	$ (6,472)
The change in the allowance for credit losses is as follows:					
Balance, beginning of year				$ 7,631	$ 7,728
Write-offs				(218)	(144)
Recoveries				55	105
Provision for credit losses				504	(58)
Balance, end of year				$ 7,972	$ 7,631

4. SECURITIZATIONS

The Company securitizes residential mortgages through CMHC or Canadian bank sponsored securitization trusts. During the second quarter of 2008, the Company began issuing NHA MBS which are sold to a trust that issues securities to investors through the CMHC-sponsored CMB Program. Pre-tax gains (losses) on the sale of mortgages are reported in Net investment income and other in the Consolidated Statements of Income. Securitization activities for the years ended December 31, 2008 and 2007 were as follows:

	2008	2007
Residential mortgages securitized	$ 1,451,201	$ 1,298,549
Net cash proceeds	1,441,370	1,286,900
Fair value of retained interests	63,779	25,691
Pre-tax gain on sales	35,772	4,504

4. SECURITIZATIONS *(continued)*

The Company's retained interest in the securitized loans includes cash reserve accounts and rights to future excess spread. This retained interest is subordinated to the interests of the related CMHC or Canadian bank sponsored securitization trusts (CP conduits) and NHA MBS holders (the Purchasers). The Purchasers do not have recourse to the Company's other assets for any failure of the borrowers to pay when due.

The key economic assumptions used to value the retained interests at the date of securitization issuances for CMHC or Canadian bank sponsored securitization trusts transactions completed during 2008 and 2007 were as follows:

	2008	2007
Weighted-average		
Remaining service life (in years)	**4.5**	4.3
Excess spread	**1.09%**	0.51%
Prepayment rate	**15.00%**	15.00%
Discount rate	**4.14%**	5.11%
Servicing fees	**0.25%**	0.25%
Expected credit losses	**0.01%**	0.01%

At December 31, 2008, the fair value of the total retained interests was $216.5 million (2007 – $48.0 million). The sensitivity to immediate 10% or 20% adverse changes to key assumptions was considered to be immaterial.

The total loans reported on the Company's Consolidated Balance Sheets, the securitized loans serviced by the Company, as well as cash flows related to securitization arrangements are as follows:

	2008	2007
Mortgages	**$ 3,225,928**	$ 2,469,280
Investment loans	**306,811**	318,412
	3,532,739	2,787,692
Less: Securitized loans serviced	**2,943,175**	2,233,745
Total on-balance sheet loans	**$ 589,564**	$ 553,947
Net cash proceeds	**$ 1,441,370**	$ 1,286,900
Cash flows received on retained interests	**$ 32,518**	$ 12,661

5. INVESTMENT IN AFFILIATE

	2008	2007
Carrying value, beginning of year	**$ 560,683**	$ 549,237
Proportionate share of earnings	**90,423**	87,069
Dilution gain	**4,241**	–
Proportionate share of affiliate's impairment charge	**(60,346)**	–
Proportionate share of affiliate's gain	**25,003**	–
Dividends	**(45,345)**	(40,055)
Porportionate share of accumulated other comprehensive loss and other adjustments	**(217)**	(35,568)
Carrying value, end of year	**$ 574,442**	$ 560,683
Share of equity, end of year	**$ 440,820**	$ 419,621
Fair value, end of year	**$ 781,821**	$ 1,340,696

The Company's proportionate share of Lifeco's earnings is recorded in Net investment income and other in the Consolidated Statements of Income.

On December 30, 2008, Lifeco issued common shares by way of private placement with proceeds of $1.0 billion, in which the Company did not participate. The Company currently holds 37,787,388 (2007 – 37,787,388) shares of Lifeco, which represents an equity interest of 4.0% (2007 – 4.2%). As a result of the common shares issued by Lifeco, a dilution gain of $4.2 million (net of $7.2 million of goodwill disposed) was recognized in the fourth quarter of 2008 and is recorded in Net investment income and other in the Consolidated Statements of Income.

In the fourth quarter of 2008, Putnam LLC, a subsidiary of Lifeco in the United States division, recorded a non-cash impairment charge on indefinite life intangibles and goodwill. In addition, Lifeco wrote-off a future tax asset related to the intangible and goodwill impairment charge and recorded restructuring costs associated with Putnam LLC. The Company's proportionate share of the after-tax impairment charge and related expenses was $60.3 million.

In the second quarter of 2008, Lifeco recorded an after-tax gain on the sale of its healthcare business, Great-West Healthcare. Lifeco reported the gain in Net income from discontinued operations in the Summary of Consolidated Operations included in Lifeco's interim Consolidated Financial Statements. The Company's proportionate share of the after-tax gain on the sale was $25.0 million.

6. OTHER ASSETS

	2008	2007
Accounts and other receivables	**$ 248,306**	$ 205,405
Derivative instruments *(Note 20)*	**169,527**	14,897
Capital assets	**101,360**	83,865
Deferred and prepaid expenses	**55,615**	56,375
Accrued benefit asset *(Note 11)*	**46,738**	45,524
Funds held in escrow	**32,842**	54,119
Other	**2,489**	4,904
	$ 656,877	$ 465,089

7. GOODWILL AND INTANGIBLE ASSETS

During 2008, Mackenzie Financial Corporation (Mackenzie), a subsidiary of IGM Financial Inc., acquired Saxon Financial Inc. and its subsidiaries. During the fourth quarter, Mackenzie completed an evaluation of the fair value of assets acquired and liabilities assumed (Note 26). The amount assigned to intangible assets represents the fair value of mutual fund management and institutional contracts acquired. The management contracts have indefinite useful lives and are not subject to amortization. The institutional contracts are amortized on a straight-line basis over a useful life not to exceed 15 years.

During 2007, Mackenzie finalized the purchase price allocation of its 2006 acquisition of the assets of Cundill Investment Research Ltd. and related entities. The purchase price was allocated to indefinite-life and finite-life intangible assets and goodwill.

The changes in the carrying amount of goodwill are as follows:

2008	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Balance, beginning of year	**$ 1,347,781**	**$ 957,339**	**$ 78,678**	**$ 2,383,798**
Acquired during the year	**–**	**201,651**	**–**	**201,651**
Goodwill adjustment	**–**	**7,852**	**(984)**	**6,868**
Balance, end of year	**$ 1,347,781**	**$ 1,166,842**	**$ 77,694**	**$ 2,592,317**

2007	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Balance, beginning of year	$ 1,347,781	$ 943,550	$ 81,383	$ 2,372,714
Acquired during the year	–	–	393	393
Allocation of goodwill acquired in 2006	–	13,789	–	13,789
Goodwill adjustment	–	–	(3,098)	(3,098)
Balance, end of year	$ 1,347,781	$ 957,339	$ 78,678	$ 2,383,798

The components of other intangible assets are as follows:

2008	FINITE-LIFE	INDEFINITE-LIFE			
	DISTRIBUTION AND OTHER MANAGEMENT CONTRACTS	MUTUAL FUND MANAGEMENT CONTRACTS	TRADE NAMES	TOTAL	TOTAL
Cost	**$ 56,595**	**$ 695,759**	**$ 285,177**	**$ 980,936**	**$ 1,037,531**
Acquired during the year	**48,311**	**39,200**	**–**	**39,200**	**87,511**
Accumulated amortization	**(14,672)**	**–**	**–**	**–**	**(14,672)**
Carrying value	**$ 90,234**	**$ 734,959**	**$ 285,177**	**$ 1,020,136**	**$ 1,110,370**

7. GOODWILL AND INTANGIBLE ASSETS *(continued)*

					2007
	FINITE-LIFE	INDEFINITE-LIFE			
	DISTRIBUTION AND OTHER MANAGEMENT CONTRACTS	MUTUAL FUND MANAGEMENT CONTRACTS	TRADE NAMES	TOTAL	TOTAL
Cost	$ 27,092	$ 608,987	$ 268,368	$ 877,355	$ 904,447
Acquired during the year	5,877	48	–	48	5,925
Allocation of assets acquired in 2006	23,626	86,725	16,809	103,534	127,160
Accumulated amortization	(8,801)	–	–	–	(8,801)
Carrying value	$ 47,794	$ 695,760	$ 285,177	$ 980,937	$ 1,028,731

8. DEPOSITS AND CERTIFICATES

Included in the assets of the Consolidated Balance Sheets are cash and cash equivalents and loans amounting to $959.0 million (2007 – $856.9 million) related to deposits and certificates.

		TERM TO MATURITY				
	DEMAND	1 YEAR OR LESS	1–5 YEARS	OVER 5 YEARS	2008 TOTAL	2007 TOTAL
Deposits	**$ 726,983**	**$ 112,251**	**$ 113,013**	**$ 1,862**	**$ 954,109**	$ 851,181
Certificates	–	**253**	**1,680**	**2,957**	**4,890**	5,714
	$ 726,983	**$ 112,504**	**$ 114,693**	**$ 4,819**	**$ 958,999**	$ 856,895

9. BANKERS' ACCEPTANCES

A Schedule I Canadian chartered bank has provided the Company with a non-revolving bridge credit facility related to the acquisition of Saxon Financial Inc. The balance of the credit facility is due on October 27, 2009. The Company has the option to extend the maturity date to April 2010. Interest rates on the credit facility fluctuate with Canadian bankers' acceptances.

10. OTHER LIABILITIES

	2008	2007
Accounts payable and accrued liabilities	**$ 362,647**	$ 358,928
Derivative instruments *(Note 20)*	**141,764**	23,516
Dividends payable	**134,462**	121,529
Short-term borrowings	**99,967**	99,845
Taxes payable	**71,676**	169,738
Interest payable	**20,840**	13,254
Accrued benefit liabilities *(Note 11)*	**62,469**	57,501
Deferred revenue	**13,891**	19,650
	$ 907,716	$ 863,961

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11. EMPLOYEE FUTURE BENEFITS

The Company maintains a number of employee future benefit plans. These plans include a funded defined benefit pension plan for all eligible employees, an unfunded supplementary executive retirement plan (SERP) for certain executive officers, and an unfunded post-retirement health care and life insurance plan for eligible retirees.

	2008			2007		
	DEFINED BENEFIT PENSION PLAN	SERP	OTHER POST-RETIREMENT BENEFITS	DEFINED BENEFIT PENSION PLAN	SERP	OTHER POST-RETIREMENT BENEFITS
Fair value of plan assets						
Balance, beginning of year	**$ 207,702**	**$ –**	**$ –**	$ 207,231	$ –	$ –
Employee contributions	**3,522**	**–**	**–**	3,168	–	–
Benefits paid	**(7,927)**	**–**	**–**	(8,028)	–	–
Actual return on plan assets	**(51,238)**	**–**	**–**	5,331	–	–
Balance, end of year	**152,059**	**–**	**–**	207,702	–	–
Accrued benefit obligation						
Balance, beginning of year	**157,111**	**17,803**	**47,503**	154,493	18,088	42,341
Benefits paid	**(7,927)**	**(947)**	**(826)**	(8,028)	(894)	(770)
Current service cost	**6,722**	**–**	**2,345**	6,616	76	2,166
Employee contributions	**3,522**	**–**	**–**	3,168	–	–
Interest cost	**8,816**	**974**	**2,728**	8,235	928	2,391
Actuarial losses (gains)	**(40,721)**	**(3,098)**	**(13,748)**	(7,373)	(395)	1,375
Balance, end of year	**127,523**	**14,732**	**38,002**	157,111	17,803	47,503
Funded status – plan surplus (deficit)	**24,536**	**(14,732)**	**(38,002)**	50,591	(17,803)	(47,503)
Unamortized net actuarial losses (gains)	**22,202**	**(2,089)**	**(7,646)**	(5,067)	1,300	6,505
Accrued benefit asset (liability)	**$ 46,738**	**$ (16,821)**	**$ (45,648)**	$ 45,524	$ (16,503)	$ (40,998)

The asset allocation by asset category of the funds invested for the defined benefit pension plan is equity securities 76% (2007 – 56%), fixed income securities 22% (2007 – 42%) and cash equivalents 2% (2007 – 2%).

11. EMPLOYEE FUTURE BENEFITS *(continued)*

	2008			2007		
	DEFINED BENEFIT PENSION PLAN	SERP	OTHER POST-RETIREMENT BENEFITS	DEFINED BENEFIT PENSION PLAN	SERP	OTHER POST-RETIREMENT BENEFITS
Benefit (income) expense was determined as follows:						
Current service cost	$ 6,722	$ –	$ 2,345	$ 6,616	$ 76	$ 2,166
Interest cost on accrued benefit obligation	8,816	974	2,728	8,235	928	2,391
Expected return on plan assets	(14,385)	–	–	(14,336)	–	–
Amortization of net actuarial (gains) losses	(2,366)	291	403	(2,781)	313	304
	$ (1,213)	$ 1,265	$ 5,476	$ (2,266)	$ 1,317	$ 4,861
Significant weighted-average actuarial assumptions:						
Discount rate	7.50%	7.44%	7.51%	5.57%	5.62%	5.53%
Expected long-term rate of return on plan assets	7.00%	N/A	N/A	7.00%	N/A	N/A
Rate of compensation increase	3.96%	2.75%	N/A	4.40%	2.75%	N/A
Health care cost trend rate(1)	N/A	N/A	7.00%	N/A	N/A	8.00%

(1) Trending to 5.00% in 2010 and remaining at that rate thereafter.

The effect of a 1% increase in assumed health care cost trend rates would be an increase in the accrued other post-retirement benefit obligation of $7.6 million as at December 31, 2008 and an increase in the 2008 other post-retirement benefit expense of $1.3 million. A decrease of 1% in assumed health care cost trend rates would result in a decrease in the accrued other post-retirement benefit obligation of $6.0 million as at December 31, 2008 and a decrease in the 2008 other post-retirement benefit expense of $1.0 million.

In addition, the Company maintains a group RSP available only to certain employees. In 2008, the Company's contributions were $5.7 million (2007 – $5.6 million). The contributions are expensed as paid.

12. INCOME TAXES

The Company's effective income tax rate is derived as follows:

	2008	2007
Income taxes at Canadian federal and provincial statutory rates	**32.37%**	35.18%
Effect of:		
Dividend income	**(0.50)**	(0.31)
Net capital gains and losses	**(0.35)**	(0.52)
Proportionate share of affiliate's earnings *(Note 5)*	**(3.08)**	(2.49)
Proportionate share of affiliate's impairment charge *(Note 5)*	**1.96**	–
Preferred dividends paid	**0.69**	0.60
Impact of rate changes on future income taxes related to indefinite life intangible assets	**–**	(1.23)
Other items	**(1.82)**	(2.55)
Effective income tax rate	**29.27%**	28.68%
Components of income tax expense are:		
Current income taxes	**$ 321,841**	$ 386,372
Future income taxes	**(29,290)**	(31,690)
	$ 292,551	$ 354,682

Future income taxes consist of the following taxable temporary differences:

	2008	2007
Future income tax assets		
Accrued benefit liabilities	**$ 16,949**	$ 16,032
Non-capital loss carry forwards	**11,253**	10,707
Other	**63,437**	40,946
	91,639	67,685
Future income tax liabilities		
Deferred selling commissions	**283,434**	313,257
Intangible assets	**156,568**	142,424
Accrued benefit asset	**12,738**	12,734
Other	**10,645**	14,026
	463,385	482,441
Future income taxes	**$ 371,746**	$ 414,756

As at December 31, 2008, the Company has non-capital losses of $42.2 million (2007 – $52.7 million) available to reduce future taxable income, the benefits of which have not been recognized. If not utilized, these losses will expire as follows: 2009 – $1.2 million; 2013 – $0.9 million, and 2014 – $40.1 million.

13. LONG-TERM DEBT

	RATE	MATURITY	2008	2007
Debentures in Series [1]				
1997	6.65%	December 13, 2027	$ 125,000	$ 125,000
2001	6.75%	May 9, 2011	450,000	450,000
2001	7.45%	May 9, 2031	150,000	150,000
2002	7.00%	December 31, 2032	175,000	175,000
2003	6.58%	March 7, 2018	150,000	150,000
2003	7.11%	March 7, 2033	150,000	150,000
			$ 1,200,000	$ 1,200,000

(1) The debentures are redeemable by the Company, in whole or in part, at any time, at the greater of par and a formula price based upon yields at the time of redemption.

Interest expense relating to long-term debt was $83.1 million (2007 – $83.1 million).

There are no principal payments due in each of the next five years except $450.0 million due in 2011.

14. SHARE CAPITAL

Authorized

Unlimited number of:

- First preferred shares, issuable in series
- Second preferred shares, issuable in series
- Class 1 non-voting shares
- Common shares

Issued and outstanding

	2008		2007	
	SHARES	STATED VALUE	SHARES	STATED VALUE
First preferred shares, Series A	14,400,000	$ 360,000	14,400,000	$ 360,000
Common shares				
Balance, beginning of year	264,192,998	$ 1,504,290	264,865,938	$ 1,493,954
Issued under Stock Option Plan *(Note 18)*	996,424	22,996	717,660	18,229
Purchased for cancellation	(2,824,800)	(16,176)	(1,390,600)	(7,893)
Balance, end of year	262,364,622	$ 1,511,110	264,192,998	$ 1,504,290

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14. SHARE CAPITAL *(continued)*

Preferred share liabilities

The preferred shares are entitled to a fixed 5.75% annual non-cumulative dividend payable quarterly. Such shares are redeemable by the Company on or after June 30, 2009 in cash, at $26.00 per share if redeemed prior to June 30, 2010, $25.67 if redeemed on or after June 30, 2010, but prior to June 30, 2011, $25.33 if redeemed on or after June 30, 2011, but prior to June 30, 2012 and $25.00 if redeemed on or after June 30, 2012. On or after June 30, 2009, the Company may convert each preferred share into that number of common shares determined by dividing the then applicable redemption price by the greater of $2.00 and 95% of the weighted-average trading price of the common shares at such time. On or after June 30, 2013, subject to the right of the Company to redeem for cash or to find substitute purchasers for such shares, each preferred share will be convertible at the option of the holder into that number of common shares determined by dividing $25.00 by the greater of $2.00 and 95% of the weighted-average trading price of the common shares at such time.

Normal course issuer bid

The Company commenced a normal course issuer bid, effective for one year, on March 22, 2008. Under this bid, the Company may purchase up to 13.2 million or 5% of its common shares as at March 14, 2008. As at December 31, 2008, 2,824,800 shares were purchased at a cost of $118.2 million. The premium paid to purchase the shares in excess of the stated value was charged to Retained earnings.

On March 22, 2007, the Company commenced a normal course issuer bid, effective for one year, authorizing it to purchase up to 13.3 million or 5% of its common shares outstanding as at March 14, 2007. As at December 31, 2007, 1,390,600 shares were purchased at a cost of $71.6 million. The premium paid to purchase the shares in excess of the stated value was charged to Retained earnings.

15. CAPITAL MANAGEMENT

The Company's capital management objective is to maximize shareholder returns while ensuring that the Company is capitalized in a manner which appropriately supports regulatory requirements, working capital needs and business expansion. The Company's capital management practices are focused on preserving the quality of its financial position by maintaining a solid capital base and a strong balance sheet. Capital of the Company consists of long-term debt, preferred shares and shareholders' equity. The Company regularly assesses its capital management practices in response to changing economic conditions.

The Company's capital is primarily utilized in its ongoing business operations to support working capital requirements, long-term investments made by the Company, business expansion and other strategic objectives. Subsidiaries subject to regulatory capital requirements include trust companies, securities dealers and mutual fund dealers. The Company's subsidiaries have complied with all regulatory capital requirements.

Capital management activities for the year ended December 31, 2008 included: the repurchase of 2,824,800 common shares at a cost of $118.2 million under the normal course issuer bid (Note 14); and the declaration of preferred share dividends of $20.7 million and common share dividends of $526.1 million. Changes in common share capital are reflected in the Consolidated Statements of Changes in Shareholders' Equity. Long-term debt of $1.2 billion and preferred shares of $360 million remain unchanged.

16. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	NET UNREALIZED GAINS (LOSSES), NET OF TAX			
	AVAILABLE FOR SALE SECURITIES	CASH FLOW HEDGES	OCL RELATED TO INVESTMENT IN AFFILIATE AND OTHER	TOTAL
2008				
Balance, beginning of year	**$ 18,334**	**$ –**	**$ (60,434)**	**$ (42,100)**
Other comprehensive income (loss)	**(130,365)**	**–**	**(594)**	**(130,959)**
Balance, end of year	**$ (112,031)**	**$ –**	**$ (61,028)**	**$ (173,059)**
2007				
Balance, beginning of year	$ –	$ –	$ (39,777)	$ (39,777)
Change in accounting policy *(Note 1)*	81,374	(35,035)	–	46,339
Other comprehensive income (loss)	(63,040)	35,035	(20,657)	(48,662)
Balance, end of year	$ 18,334	$ –	$ (60,434)	$ (42,100)

17. INCOME TAXES ON COMPONENTS OF OTHER COMPREHENSIVE INCOME (LOSS)

	2008	2007
Net unrealized gains (losses) on available for sale securities	**$ 21,027**	$ 14,341
Net unrealized gains (losses) on cash flow hedges	**–**	(7,519)
Total income taxes	**$ 21,027**	$ 6,822

18. STOCK-BASED COMPENSATION

Stock option plan

Under the terms of the Company's Stock Option Plan (Plan), options to purchase common shares are periodically granted to employees at prices not less than the weighted average trading price per common share on the Toronto Stock Exchange for the five trading days preceding the date of the grant. The options are subject to time and/or performance vesting conditions set out at the grant date and are exercisable no later than 10 years after the grant date. At December 31, 2008, 15,540,406 (2007 – 16,536,830) common shares were reserved for issuance under the Plan.

During 2008, the Company granted 1,164,866 options to employees (2007 – 1,565,820). A portion of the options granted to employees are subject to performance targets. The weighted-average fair value of time vesting options granted during the year ended December 31, 2008 has been estimated at $5.30 per option (2007 – $8.64) using the Black-Scholes option pricing model. The weighted-average fair value of performance based options granted during the year ended December 31, 2008 has been estimated at $1.62 per option (2007 – $4.63) using a barrier option pricing model. The assumptions used in these valuation models include: (i) risk-free interest rate of 3.27% (2007 – 3.97%), (ii) expected option life of six years (2007 – six years), (iii) expected volatility of 20.00% (2007 – 20.00%) and (iv) expected dividend yield of 4.53% (2007 – 3.36%).

The Company recorded compensation expense related to its stock option program of $7.3 million (2007 – $7.6 million).

18. STOCK-BASED COMPENSATION *(continued)*

	2008		2007	
	NUMBER OF OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
Balance, beginning of year	**9,085,730**	**$ 33.47**	8,494,870	$ 29.66
Granted	**1,164,866**	**43.18**	1,565,820	50.91
Exercised	**(996,424)**	**22.04**	(717,660)	23.43
Forfeited	**(324,493)**	**45.23**	(257,300)	41.90
Balance, end of year	**8,929,679**	**$ 35.59**	9,085,730	$ 33.47
Exercisable, end of year	**4,657,554**	**$ 28.30**	4,768,705	$ 25.50

Options outstanding at December 31, 2008	EXPIRY DATE	EXERCISE PRICE ($)	OPTIONS OUTSTANDING	OPTIONS EXERCISABLE
	2009	**21.21 – 24.27**	**113,126**	**113,126**
	2010	**17.00**	**22,000**	**22,000**
	2011	**19.83 – 22.78**	**1,722,798**	**1,722,798**
	2012	**27.81**	**61,100**	**56,600**
	2013	**25.66 – 28.66**	**942,832**	**942,832**
	2014	**33.52 – 35.77**	**1,264,111**	**773,711**
	2015	**37.09 – 37.78**	**1,649,917**	**726,979**
	2016	**46.68**	**688,186**	**191,126**
	2017	**50.60 – 50.92**	**1,336,256**	**103,367**
	2018	**42.09 – 44.60**	**1,129,353**	**5,015**
			8,929,679	**4,657,554**

Share purchase plans

Under the Company's share purchase plans, eligible employees and financial planning consultants can elect each year to have a percentage of their annual earnings withheld, subject to a maximum, to purchase the Company's common shares. The Company matches 50% of the contribution amounts. All contributions are used by the plan trustee to purchase common shares in the open market. Shares purchased with Company contributions vest after a maximum period of three years following the date of purchase. The Company's contributions are recorded in Non-commission expense as paid and totalled $11.0 million (2007 – $9.9 million).

18. STOCK-BASED COMPENSATION *(continued)*

Deferred share unit plan

The Company has a deferred share unit plan for the directors of the Company to promote a greater alignment of interest between directors and shareholders of the Company. Under the Plan, directors are required to receive 50% of their annual retainer in the form of deferred share units and may elect to receive the balance of their annual retainer in cash or deferred share units. Directors may elect to receive their attendance fees in a combination of deferred share units and cash. The number of deferred share units granted is determined by dividing the amount of remuneration payable by the average closing price on the Toronto Stock Exchange of the common shares of the Company on the last five days of the fiscal quarter (the "value of deferred share unit"). A director who has elected to receive deferred share units will receive additional deferred share units in respect of dividends payable on common shares, based on the value of a deferred share unit at the dividend payment date. Deferred share units are redeemable when a participant is no longer a director, officer or employee of the Company or any of its affiliates by a lump sum cash payment, based on the value of the deferred share units at that time. At December 31, 2008, the fair value of the deferred share units outstanding was $6.3 million (2007 – $7.3 million). Any differences between the change in fair value of the deferred share unit plan and the change in fair value of the total return swap utilized as an economic hedge for the deferred share unit plan are recognized in Non-commission expense during the period in which the change occurs.

19. RISK MANAGEMENT

The Company actively manages its liquidity, credit and market risks.

Liquidity risk related to financial instruments

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due.

The Company's liquidity management practices include: controls over liquidity management processes; stress testing of various operating scenarios; and oversight over liquidity management by Committees of the Board of Directors.

A key liquidity requirement for the Company is the funding of commissions paid on the sale of mutual funds. The payment of commissions continue to be fully funded through ongoing cash flow from operations.

The Company also maintains sufficient liquidity to fund and temporarily hold mortgages. Through its mortgage banking operations, residential mortgages are funded primarily through sales to third parties, including Canada Mortgage and Housing Corporation (CMHC) or Canadian bank sponsored securitization trusts, private placements to institutional investors, or placed with Investors Mortgage and Short Term Income Fund or Investors Group's intermediary operations. During the second quarter of 2008, the Company was approved by CMHC as an issuer of National Housing Act Mortgage Backed Securities (NHA MBS) and as a seller into the Canada Mortgage Bond Program (CMB Program). All mortgages are sold on a fully-serviced basis. This issuer and seller status provides the Company with additional funding sources for residential mortgages (Note 4). The Company's continued ability to fund residential mortgages through Canadian bank-sponsored securitization trusts and NHA MBS is dependent on securitization market conditions that are subject to change.

Liquidity requirements for trust subsidiaries which engage in financial intermediary activities are based on policies approved by the investment and conduct review committees of their respective Boards of Directors. As at December 31, 2008, liquidity for the trust subsidiaries was in compliance with these policies.

19. RISK MANAGEMENT *(continued)*

Liquidity risk related to financial instruments *(continued)*

The Company's contractual maturities were as follows:

As at December 31, 2008 *($ millions)*	DEMAND	LESS THAN 1 YEAR	1 – 5 YEARS	AFTER 5 YEARS	TOTAL
Deposits and certificates	$ 727.0	$ 112.5	$ 114.7	$ 4.8	$ 959.0
Bankers' acceptances	–	–	286.6	–	286.6
Other liabilities	–	108.1	133.6	–	241.7
Long-term debt	–	–	450.0	750.0	1,200.0
Preferred shares	–	–	360.0	–	360.0
Operating leases[1]	–	42.4	110.2	96.1	248.7
Total contractual obligations	$ 727.0	$ 263.0	$ 1,455.1	$ 850.9	$ 3,296.0

(1) Includes office space and equipment used in the normal course of business. Lease payments are charged to earnings in the period of use.

In addition to the Company's current balance of cash and cash equivalents, other potential sources of liquidity include the Company's lines of credit and portfolio of securities. The Company increased its operating lines of credit with various Schedule I Canadian chartered banks to $475 million as at December 31, 2008 from $260 million as at December 31, 2007. The operating lines of credit as at December 31, 2008 consist of committed lines of $300 million (2007 – nil) and uncommitted lines of $175 million (2007 – $260 million). As at December 31, 2008, the Company had utilized $100.0 million of its uncommitted operating lines of credit, unchanged from December 31, 2007. Interest expense related to the lines of credit is based on bankers' acceptance rates.

In connection with the acquisition of Saxon Financial Inc. (Note 26) on September 25, 2008, the Company maintains a non-revolving bridge credit facility with a Schedule I chartered bank totalling $287 million. At December 31, 2008, the Company had utilized $287.0 million. The credit facility is due October 27, 2009 but may, at the Company's option, be extended to April 2010.

The Company can access the domestic debt and equity markets to raise capital, however, its ability to access capital markets to raise funds is dependent on market conditions which have been adversely affected by the current conditions.

Management believes cash flows from operations, available cash balances and other sources of liquidity described above will be sufficient to fund the Company's liquidity needs. The Company's liquidity position and its management of liquidity risk have not changed materially since December 31, 2007.

Credit risk related to financial instruments

Credit risk is the potential for financial loss to the Company if a counterparty in a transaction fails to meet its obligations. The Company's cash and cash equivalents, securities holdings, mortgage and investment loan portfolios, and derivatives are subject to credit risk. The Company monitors its credit risk management practices continuously to evaluate their effectiveness.

At December 31, 2008, cash and cash equivalents of $1.23 billion consisted of cash balances of $118.6 million on deposit with Canadian chartered banks and cash equivalents of $1.11 billion. Cash equivalents consist of Government of Canada treasury bills totalling $436.3 million, provincial government and government guaranteed commercial paper of $161.2 million and bankers' acceptances issued by Canadian chartered banks of $516.1 million. The Company regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value. The Company mitigates credit risk on these financial instruments by adhering to its Investment Policy that outlines credit risk parameters and concentration limits.

19. RISK MANAGEMENT *(continued)*

Credit risk related to financial instruments *(continued)*

Fixed income securities at December 31, 2008 include $191.7 million of Canadian chartered bank senior deposit notes and bankers' acceptances. The maximum exposure to credit risk on these financial instruments is their carrying value. The Company mitigates credit risk on these financial instruments by adhering to its Investment Policy that outlines credit risk parameters and concentration limits. Fixed income securities also include non-bank-sponsored ABCP, which totalled $35.3 million net of impairment charges and represents the maximum exposure to credit risk at December 31, 2008 (Note 2).

The Company regularly reviews the credit quality of the mortgage and investment loan portfolios and the adequacy of the general allowance. As at December 31, 2008 mortgages and investment loans totalled $287.0 million and $310.5 million, respectively. The allowance for credit losses of $8.0 million at December 31, 2008 exceeded impaired mortgages and investment loans by $7.5 million. As at December 31, 2008, the mortgage portfolios were geographically diverse, 100% residential and 64% insured. The credit risk on the investment loan portfolio is mitigated through the use of collateral, primarily in the form of mutual fund investments. Uninsured non-performing loans over 90 days in the mortgage and investment loan portfolios were $0.5 million at December 31, 2008, unchanged from December 31, 2007 levels. The characteristics of the mortgage and investment loan portfolios have not changed significantly during 2008.

The Company's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and mortgage and investment loan portfolios have not changed materially since December 31, 2007.

The Company regularly reviews the credit quality of the mortgage loans securitized through CMHC or Canadian bank sponsored (Schedule I chartered banks) securitization trusts. The maximum exposure to credit risk attributable to securitized mortgage loans is equal to the fair value of the retained interests in the securitized loans, which was $216.5 million at December 31, 2008 compared to $48.0 million in 2007. Retained interests include:

- Cash reserve accounts and rights to future excess spread which totalled $80.0 million at December 31, 2008. This portion of the retained interest is subordinated to the interests of the related CMHC or Canadian bank sponsored securitization trusts and represents the maximum exposure to credit risk for any failure of the borrowers to pay when due. Securitized mortgage loans serviced totalled $2.94 billion at December 31, 2008 compared to $2.23 billion in 2007. Uninsured non-performing loans over 90 days in these portfolios was nil at December 31, 2008 compared to $0.2 million at December 31, 2007. The Company's exposure to credit risk related to cash reserve accounts and rights to future excess spread was not significant at December 31, 2008.
- Fair value of interest rate swaps entered into by the Company with bank-sponsored securitization trusts. The outstanding notional amount of these interest rate swaps was $3.3 billion at December 31, 2008 compared to $2.2 billion in 2007. The fair value of the interest rate swaps was $136.5 million and the exposure to credit risk, which is limited to the fair value of the interest rate swaps which were in a gain position, totalled $153.6 million at December 31, 2008 compared to nil at December 31, 2007. Counterparties are all bank-sponsored securitization trusts and, as a result, management has determined that credit risk related to these interest rate swaps was not significant at December 31, 2008.

The Company also regularly reviews the credit ratings of derivative financial instrument counterparties. Derivative contracts are either exchange traded or negotiated in the over-the-counter market on a diversified basis with Schedule I chartered banks.

Credit risk related to financial instruments *(continued)*

The outstanding notional amount of derivative contracts, excluding interest rate swaps negotiated with bank-sponsored securitization trusts discussed above was $2.7 billion at December 31, 2008 compared to $2.2 billion at December 31, 2007. The increase in the notional amount related primarily to interest rate swaps utilized in the Company's mortgage banking operations. The exposure to credit risk, which is limited to the fair value of those instruments which were in a gain position, increased to $39.4 million at December 31, 2008 from $15.9 million at December 31, 2007 primarily due to the increase in the notional amount of interest rate swaps and to changes in interest rates during 2008. This does not give effect to any netting agreements or collateral arrangements. The Company's exposure to credit risk attributable to derivative contracts which were in a gain position increased significantly in 2008. In all cases, counterparties for derivatives are Canadian Schedule I chartered banks and, as a result, management has determined that the Company's overall credit risk is not significant at December 31, 2008. Management of credit risk has not changed materially since December 31, 2007.

Market risk related to financial instruments

Market risk is the potential for loss to the Company from changes in the values of its financial instruments due to changes in interest rates, foreign exchange rates or equity prices. The Company's financial instruments are generally denominated in Canadian dollars, and do not have significant exposure to changes in foreign exchange rates.

The Company is exposed to interest rate risk on its loan portfolio and on certain of the derivative financial instruments used in the Company's mortgage banking and intermediary operations. The objective of the Company's asset liability management is to control interest rate risk by actively managing its interest rate exposure. As at December 31, 2008, the total gap between one-year deposit assets and liabilities was within the Company's stated guidelines. The Company utilizes interest rate swaps in order to reduce the impact of fluctuating interest rates on its mortgage banking and intermediary operations. As part of the securitization transactions with bank-sponsored securitization trusts the Company enters into interest rate swaps with the trusts which transfers the interest rate risk to the Company. The Company is also exposed to relative movements in short-term borrowing costs. Under securitization transactions with bank-sponsored securitization trusts the Company is exposed to ABCP rates. Changes in the relationship between ABCP rates and one-month BA rates may result in fluctuations in the value of these interest rate swaps. As part of the securitization transactions under the CMB Program, the Company enters into interest rate swaps with Schedule 1 chartered bank counterparties that transfer the interest rate risk including reinvestment risk to the Company. To manage interest rate and reinvestment risks, the Company enters into offsetting interest rate swaps with Schedule I chartered bank counterparties to reduce the impact of fluctuating interest rates. As at December 31, 2008, the impact of a 100-basis point change in interest rates to Net income would have been $3.0 million.

The Company is exposed to equity price risk on its securities holdings and on the related derivative financial instruments. The Company adheres to an Investment Policy that outlines the objectives, constraints and parameters relating to its investing activities. This policy prescribes limits around the quality and concentration of investments held by the Company. The Company manages its exposure to equity price risk on a portion of its corporate securities portfolio by using a variety of derivative instruments including options and forward contracts. Management regularly reviews the Company's investments to ensure all activities are in adherence to the Investment Policy. Common shares are reviewed periodically, or more frequently when conditions warrant, to determine whether there is objective evidence of an other-than-temporary impairment in value. A significant portion of unrealized losses occurred during the latter part of 2008 reflecting the current market environment and resulting price fluctuations. The Company holds a diversified portfolio of securities that consists primarily of well-capitalized, dividend-paying Canadian common shares that are included in the S&P TSX 60 Index. The Company has the ability and intent to hold these securities for a period of time sufficient to allow for any recovery of their fair value. As at December 31, 2008, the Company concluded that the gross unrealized losses were temporary.

19. RISK MANAGEMENT *(continued)*

Market risk related to financial instruments *(continued)*

The Company's securities holdings are classified as available for sale, therefore unrealized gains and losses on securities that are not part of a designated hedging relationship are recorded in Other comprehensive income until realized. As at December 31, 2008, the impact of a 10% decrease in equity prices would have been a $21.4 million unrealized loss recorded in Other comprehensive income.

The Company's exposure to and management of interest rate risk and equity price risk has not changed materially since December 31, 2007.

Market risk related to assets under management

Risks related to the performance of the equity markets, changes in interest rates and changes in foreign currencies relative to the Canadian dollar can have a significant impact on the level and mix of assets under management.

Changes in assets under management directly impact earnings as discussed more fully in the Investors Group and Mackenzie Segment Operating Results in the Company's Management Discussion and Analysis contained in the 2008 Annual Report to Shareholders.

20. DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into derivative contracts which are either exchange-traded or negotiated in the over-the-counter market on a diversified basis with Schedule I chartered banks or Canadian bank-sponsored securitization trusts that are also counterparties to the Company's securitization transactions. In all cases the derivative contracts are used for non-trading purposes. Interest rate swaps are contractual agreements between two parties to exchange the related interest payments based on a specified notional amount and reference rate for a specified period. Total return swaps are contractual agreements to exchange payments based on a specified notional amount and the underlying security for a specific period. Options are contractual agreements which convey the right, but not the obligation, to buy or sell specific securities at a fixed price at a future date. Forward sales are contractual agreements to sell a financial instrument on a future date at a specified price.

The amount subject to credit risk is limited to the current fair value of the instruments which are in a gain position. The credit risk is presented below without giving effect to any netting agreements or collateral arrangements and does not reflect actual or expected losses. The total estimated fair value represents the total amount that the Company would receive or pay to terminate all agreements at each year end. However, this would not result in a gain or loss to the Company as the derivative instruments which correlate to certain assets and liabilities provide offsetting gains or losses.

The following table summarizes the Company's derivative financial instruments at December 31:

	NOTIONAL AMOUNT					FAIR VALUE	
2008	1 YEAR OR LESS	1–5 YEARS	OVER 5 YEARS	TOTAL	CREDIT RISK	ASSET	LIABILITY
Swaps	**$ 953,211**	**$4,559,460**	**$ 404,277**	**$5,916,948**	**$ 160,003**	**$ 136,541**	**$ 141,174**
Options purchased	**42,632**	**–**	**–**	**42,632**	**20,456**	**20,456**	**–**
Options written	**29,988**	**–**	**–**	**29,988**	**–**	**–**	**590**
Forward contracts	**17,382**	**8,612**	**–**	**25,994**	**12,530**	**12,530**	**–**
	$1,043,213	**$4,568,072**	**$ 404,277**	**$6,015,562**	**$ 192,989**	**$ 169,527**	**$ 141,764**
2007							
Swaps	$ 820,211	$ 3,198,521	$ 146,205	$ 4,164,937	$ 1,042	$ 21	$ 18,948
Options purchased	72,493	36,218	–	108,711	14,337	14,337	–
Options written	78,123	24,208	–	102,331	–	–	4,568
Forward contracts	13,302	–	–	13,302	539	539	–
	$ 984,129	$ 3,258,947	$ 146,205	$ 4,389,281	$ 15,918	$ 14,897	$ 23,516

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the fair value of financial instruments using the valuation methods and assumptions described below. Fair value represents the amount that would be exchanged in an arm's length transaction between willing parties under no compulsion to act, and best evidenced by a quoted market price, if one exists. Fair values are management's estimates and are generally calculated using market conditions at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and matters of significant judgment.

	2008		2007	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Assets				
Cash and cash equivalents	**$ 1,232,171**	**$ 1,232,171**	$ 1,180,284	$ 1,180,284
Securities	**537,653**	**537,653**	696,279	696,279
Loans	**589,564**	**591,708**	553,947	550,956
Other financial assets	**281,148**	**281,148**	259,524	259,524
Derivative assets	**169,527**	**169,527**	14,897	14,897
Total financial assets	**$ 2,810,063**	**$ 2,812,207**	$ 2,704,931	$ 2,701,940
Liabilities				
Deposits and certificates	**$ 958,999**	**$ 964,200**	$ 856,895	$ 856,999
Bankers' acceptances	**286,615**	**286,615**	–	–
Other financial liabilities	**689,592**	**689,592**	763,294	763,294
Derivative liabilities	**141,764**	**141,764**	23,516	23,516
Preferred share liabilities	**360,000**	**366,480**	360,000	391,536
Long–term debt	**1,200,000**	**1,206,193**	1,200,000	1,353,036
Total financial liabilities	**$ 3,636,970**	**$ 3,654,844**	$ 3,203,705	$ 3,388,381

Fair value is determined using the following methods and assumptions:

The fair value of short-term financial instruments approximate carrying value. These include cash and cash equivalents, other financial assets, and other financial liabilities.

Securities are valued using quoted prices from active markets, when available. When a quoted market price is not readily available, valuation techniques are used that require assumptions related to discount rates and the timing and amount of future cash flows. Wherever possible, observable market inputs are used in the valuation techniques.

Loans are valued by discounting the expected future cash flows at market interest rates for loans with similar credit risk and maturity.

Deposits and certificates are valued by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms and credit risks.

Preferred share liabilities are valued using quoted prices from active markets.

Long-term debt is valued by reference to current market prices for debentures and notes payable with similar terms and risks.

Derivative financial instruments fair values are based on quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, or net present value analysis.

22. EARNINGS PER COMMON SHARE

	2008	2007
Earnings		
Net income before proportionate share of affiliate's gain	$ 705,796	$ 879,135
Proportionate share of affiliate's gain	25,003	–
Net income	$ 730,799	$ 879,135
Number of common shares *(in thousands)*		
Average number of common shares outstanding	263,323	264,604
Add: Potential exercise of outstanding stock options	1,485	2,699
Average number of common shares outstanding – Diluted basis	264,808	267,303
Earnings per common share *(in dollars)*		
Excluding proportionate share of affiliate's gain		
– Basic	$ 2.68	$ 3.32
– Diluted	$ 2.67	$ 3.29
Including proportionate share of affiliate's gain		
– Basic	$ 2.78	$ 3.32
– Diluted	$ 2.76	$ 3.29

In certain circumstances, the preferred shares referred to in Note 14 are convertible into common shares. These conversions are not included in the calculation of diluted earnings per share as the Company has the option to settle in cash instead of shares.

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23. CONTINGENCIES, COMMITMENTS AND GUARANTEES

Contingencies

The Company is subject to legal actions, including class actions, arising in the normal course of its business. Two class actions related to alleged market timing trading activity in mutual funds of the companies are continuing. Investors Group entered into settlement agreements in 2004 with a number of its securities regulators in respect of such market timing trading activity. Although it is difficult to predict the outcome of such legal actions, based on current knowledge and consultation with legal counsel, management does not expect the outcome of any of these matters, individually or in aggregate, to have a material adverse effect on the Company's consolidated financial position.

Commitments

The Company is committed to the following annual lease payments under its operating leases: 2009 – $42.4 million; 2010 – $37.6 million; 2011 – $29.4 million; 2012 – $24.3 million; and 2013 and thereafter – $115.0 million.

Guarantees

In the normal course of operations, the Company executes agreements that provide for indemnifications to third parties in transactions such as business dispositions, business acquisitions, loans and securitization transactions. The Company has also agreed to indemnify its directors and officers. The nature of these agreements precludes the possibility of making a reasonable estimate of the maximum potential amount the Company could be required to pay third parties as the agreements often do not specify a maximum amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined. Historically, the Company has not made any payments under such indemnification agreements. No amounts have been accrued related to these agreements.

24. RELATED PARTY TRANSACTIONS

The Company enters into transactions with The Great-West Life Assurance Company (Great-West), London Life Insurance Company (London Life) and The Canada Life Assurance Company (Canada Life), which are all subsidiaries of its affiliate, Lifeco, which is a subsidiary of Power Financial Corporation. These transactions are in the normal course of operations and have been recorded at the agreed upon exchange amounts.

During 2008 and 2007, the Company provided to and received from Great-West certain administrative services. The Company distributes insurance products under a distribution agreement with Great-West and Canada Life and received $39.7 million in distribution fees (2007 – $31.8 million). The Company received $13.0 million (2007 – $14.2 million) related to the provision of sub-advisory services for certain Great-West, London Life, and Canada Life segregated mutual funds. The Company paid $34.1 million (2007 – $30.9 million) to London Life related to the distribution of certain mutual funds of the Company.

During 2008, the Company sold residential mortgage loans to Great-West and London Life for $143.4 million (2007 – $153.7 million).

25. SEGMENTED INFORMATION

Investors Group and Mackenzie earn fee-based revenues in the conduct of their core business activities which are primarily related to the distribution, management and administration of their mutual funds. Fee revenues are also derived from the provision of brokerage services. Intermediary revenues are derived primarily from the assets funded by deposit and certificate products and from mortgage banking and servicing activities. In addition, Investors Group earns fee revenue from the distribution of insurance products and equity income from its investment in Lifeco (Note 5).

Corporate and Other includes Investment Planning Counsel, net investment income on unallocated investments, and interest expense on corporate debt.

The results of the reportable segments reflect the Company's internal financial reporting systems.

				2008
	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Fee and net investment income				
Management	$ 1,077,738	$ 749,992	$ 39,493	$ 1,867,223
Administration	210,693	136,144	2,412	349,249
Distribution	149,517	34,255	102,272	286,044
Net investment income and other	151,144	22,758	28,270	202,172
	1,589,092	943,149	172,447	2,704,688
Operating expenses				
Commissions	473,424	338,793	94,054	906,271
Non-commission	317,473	289,616	40,765	647,854
	790,897	628,409	134,819	1,554,125
Earnings before undernoted	$ 798,195	$ 314,740	$ 37,628	1,150,563
Interest expense				90,604
				1,059,959
Proportionate share of affiliate's impairment charge, net of tax				60,346
Income before income taxes, non-controlling interest and proportionate share of affiliate's gain				999,613
Income taxes				292,551
Income before non-controlling interest and proportionate share of affiliate's gain				707,062
Non-controlling interest				1,266
Net income before proportionate share of affiliate's gain				705,796
Proportionate share of affiliate's gain				25,003
Net income				$ 730,799
Identifiable assets	$ 1,773,835	$ 2,613,357	$ 1,254,488	$ 5,641,680
Goodwill	1,347,781	1,166,842	77,694	2,592,317
Total assets	$ 3,121,616	$ 3,780,199	$ 1,332,182	$ 8,233,997

25. SEGMENTED INFORMATION *(continued)*

2007	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Fee and net investment income				
Management	$ 1,176,732	$ 873,795	$ 45,505	$ 2,096,032
Administration	208,551	139,228	1,649	349,428
Distribution	127,097	30,348	98,056	255,501
Net investment income and other	126,201	19,962	47,983	194,146
	1,638,581	1,063,333	193,193	2,895,107
Operating expenses				
Commissions	460,060	395,307	91,686	947,053
Non-commission	293,598	292,890	36,500	622,988
	753,658	688,197	128,186	1,570,041
Earnings before undernoted	$ 884,923	$ 375,136	$ 65,007	1,325,066
Interest expense				88,330
Income before income taxes and non-controlling interest				1,236,736
Income taxes				354,682
Income before non-controlling interest				882,054
Non-controlling interest				2,919
Net income				$ 879,135
Identifiable assets	$ 1,556,402	$ 2,519,443	$ 1,398,952	$ 5,474,797
Goodwill	1,347,781	957,339	78,678	2,383,798
Total assets	$ 2,904,183	$ 3,476,782	$ 1,477,630	$ 7,858,595

26. ACQUISITION OF SAXON FINANCIAL INC.

On September 25, 2008, Mackenzie acquired 95.3% of the issued and outstanding shares of Saxon Financial Inc. (Saxon), a Canadian investment management company. The acquisition was by way of a take over bid. Mackenzie acquired the remaining Saxon common shares during the fourth quarter of 2008 under the compulsory acquisition provisions of the Business Corporations Act (Ontario). Total cash consideration was $289.7 million including transaction and other related costs.

The acquisition has been accounted for by the purchase method and the results of Saxon's operations have been included in the Consolidated Financial Statements from the date of acquisition.

The following table summarizes the fair value of the assets acquired and liabilities assumed at the date of acquisition.

Fair value of assets acquired	
Cash and cash equivalents	$ 24,968
Securities	11,438
Management contracts	39,200
Institutional contracts	47,700
Other assets	7,142
	130,448
Less fair value of liabilities assumed	
Other liabilities	35,252
Future income tax liability	7,164
	42,416
Fair value of net assets acquired	88,032
Goodwill	201,651
Total purchase consideration	$ 289,683

Included in Other liabilities are restructuring costs of $18.0 million related to the acquisition.

IGM FINANCIAL INC.

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PARGESA HOLDING SA

PART D

PARGESA HOLDING SA

Power Financial and the Frère group of Charleroi, Belgium, each hold 50% of Parjointco N.V., a Netherlands-based company that, as at December 31, 2008, held a 62.9% voting interest and a 54.1% equity interest (unchanged from 2007) in Pargesa Holding SA (Pargesa), the Pargesa group's parent company. Pargesa has its head office in Geneva, Switzerland and its shares are listed on the Swiss Exchange (SWX). The Pargesa group holds interests in a limited number of large European companies active primarily in the following sectors: energy, water, waste services, specialty minerals, cement and building materials, and wines and spirits.

At year-end, the carrying value of Power Financial's interest in Parjointco was $2.8 billion, compared with $3.5 billion in 2007. Other than its interest in Pargesa, Parjointco's other assets and liabilities consisted primarily of bank loans totalling $175 million at year-end.

As at December 31, 2008, Pargesa held a 50.0% equity interest (48.6% in 2007) in Groupe Bruxelles Lambert (GBL), representing 51.8% of the voting rights. GBL, a holding company whose head office is in Brussels, Belgium, is listed on the Euronext Exchange. At the same date, Pargesa and GBL jointly held a 57.9% interest (54.1% in 2007) in Imerys (specialty minerals), a company listed on the Paris Exchange. GBL also held interests of 4.0% in Total (energy – oil and gas), 5.3% in GDF Suez (energy – electricity and gas), 21.1% in Lafarge (cement and building materials), 8.2% in Pernod Ricard (wines and spirits) and 7.1% in Suez Environnement (water and waste services), all of which are listed on the Paris Exchange.

HIGHLIGHTS

In 2008, Pargesa spent SF290 million to purchase GBL shares on the stock market, increasing its equity interest from 48.6% to 50.0% and its voting interest from 50.2% to 51.8%.

Over the same period, GBL spent €1.1 billion to increase its equity interest in Lafarge to 21.1% at the end of 2008 (17.9% at the end of 2007 – before dilution related to the €8.8 billion acquisition of Orascom Cement Industries completed in January 2008); the interest in Lafarge has been consolidated under the equity accounting method from January 1, 2008. GBL also increased its equity interest in Pernod Ricard from 6.2% to 8.2% as at December 31, 2008, investing close to €300 million, and raised its stake in Imerys from 26.8% to 30.5% (57.9% jointly with Pargesa) through an investment of €100 million. GBL reduced its equity interest in Iberdrola from 1.4% to 0.6% at the end of 2008 through a €436 million disposal.

The Suez and Gaz de France merger was completed on July 22, 2008, giving rise to GDF Suez. As part of this merger, Suez distributed to its shareholders 65% of the capital of Suez Environnement (the water and waste management activities), which has been listed separately from that date on the Paris Exchange. At the time of the merger, GBL's equity interests in GDF Suez and Suez Environnement were 5.3% and 6.3%, respectively. GBL subsequently increased its interest in Suez Environnement from 6.3% to 7.1% through stock market purchases.

Subsequent to year-end, Lafarge announced on February 20, 2009 its intention to proceed with a €1.5 billion rights issue, and GBL confirmed that it agrees to subscribe its share of the issue.

Pargesa Group — Financial information

As at December 31, 2008 [in millions of dollars][1]		Pargesa Holding SA	Groupe Bruxelles Lambert
Cash and temporary investments		34	1,647
Long-term debt		1,753[2]	715[3]
Bank credit facilities	– amount authorized	458	3,068
	– of which used	147	256[4]
	– due in year	2011	2013-2014
Shareholders' equity		10,824	22,873
Market capitalization		6,797	15,639

[1] Foreign currencies have been converted into Canadian dollars using rates of 1.1472 for Swiss francs and 1.7046 for euros.

[2] Corporate debt of Pargesa and its wholly owned subsidiaries only, as reported on its balance sheet. Represents the convertible bonds issued in March 2006 and June 2007.

[3] Includes bonds exchangeable for shares maturing in 2012, as presented on GBL's balance sheet.

[4] A further amount of $1,278 million was pulled by GBL in early 2009 from its authorized bank credit facilities.

At the end of December 2008, Pargesa's adjusted net asset value was $9,905 million, resulting in a value per Pargesa share of SF102.0 (SF188.5 at the end of 2007). Pargesa's adjusted net asset value is calculated using the stock market values of listed holdings (these companies account for more than 99% of the portfolio's total value), and the estimated fair value or the share of consolidated shareholders' equity in unlisted holdings, as per the most recent information provided by these companies.

Pargesa — Breakdown of adjusted net asset value [flow-through basis]

As at December 31, 2008 [in millions of dollars]	Net Assets [Pargesa's share]	%
GDF Suez	3,545	36
Total	3,131	32
Lafarge	1,531	15
Imerys	1,490	15
Pernod Ricard	818	8
Suez Environnement	361	4
Other investments	363	4
Net cash and short-term assets, net of debt[1]	(1,334)	(14)
	9,905	100

Figures have been converted into Canadian dollars using a rate of 1.1472.

[1] Pargesa's share of net cash and short-term assets and debt held by the group's holding companies based on Pargesa's economic interest.

Pargesa reports its financial statements under International Financial Reporting Standards (IFRS). A simplified presentation of the Statement of Earnings based on IFRS appears at the end of this section. In addition to the IFRS presentation, Pargesa continues to present an economic analysis of its results to identify the sources of earnings and provide a breakdown between operating and non-operating earnings.

As per the economic analysis presented below, Pargesa's operating earnings were SF708 million in 2008, compared with SF609 million in 2007.

The interest in Lafarge has been consolidated under the equity accounting method from January 1, 2008; prior to that, this investment was recorded at cost and therefore only the dividend received each year contributed to the group's earnings. Lafarge's contribution to Pargesa thus rose from SF75 million in 2007 to SF285 million in 2008. Imerys recorded a 15.7% decrease in net current operating earnings, with its contribution to Pargesa falling from SF212 million in 2007 to SF179 million in 2008.

The other principal holdings of Pargesa are recorded at cost, so their contributions to earnings represent Pargesa's shares of the net dividends received by GBL from these companies; expressed in Swiss francs, the contribution from those holdings was impacted, in 2008 by the 3.4% drop in the euro against the Swiss franc compared to the average 2007 rate. This dividend income is, however, enhanced by GBL's increased interest in these companies.

In May 2008, before merging with Gaz de France, Suez paid a dividend per share up 13.3% from 2007. In the second half of the year, the new group, GDF Suez, paid a 2008 interim dividend that contributed SF78 million to Pargesa's earnings. In 2008, at its general meeting of shareholders, Total approved a dividend per share increase of 11%, while Lafarge's dividend rose 33%. Pernod Ricard, which has a June 30 year-end, increased its dividend by 5%.

The group's principal holdings contributed SF853 million to Pargesa's operating earnings in 2008, compared with SF571 million in 2007.

The current contribution from other holdings includes the contribution of Ergon Capital Partners, held by GBL, and the dividends paid by Iberdrola. In 2008, this income was affected by fair market value adjustments recorded by Ergon on certain portfolio interests.

The other operating income from holding operations, which is the net sum of financial income and expenses, overhead, and taxes, represented a net charge of SF118 million in 2008, compared with a SF20 million profit in 2007. In 2008, Pargesa bore a full-year financial charge on the convertible bonds issued in June 2007. In addition, GBL's financial income decreased substantially, a large portion of the cash available was used to increase the group's interests in its principal holdings, and the gains realized by GBL through private equity funds were down (from SF42 million in 2007 to SF8 million in 2008 in Pargesa's share).

In 2008, non-operating income included a SF1,228 million charge representing Pargesa's share in the impairment recorded by GBL on the value of its interests in Lafarge (SF897 million), Pernod Ricard (SF259 million), and on the remaining shares of Iberdrola (SF72 million), whereas the 2007 income includes the gain realized on the partial disposal of Iberdrola shares.

Economic analysis of Pargesa's net earnings

[in millions of Swiss francs]	Cumulative Equity Interest	Pargesa's Economic Interest	Contribution to Pargesa's Earnings[1]	
As at December 31 and the years then ended			2008	2007
Contribution from principal holdings:	%	%		
Equity accounted or consolidated				
Lafarge (cement and building materials)	21.1	10.6	285	–[2]
Imerys (specialty minerals)	57.9	42.7	179	212
Non-consolidated				
Total (oil and gas)	4.0	2.0	155	150
GDF Suez (electricity and gas)	5.3	2.7	78	–
Suez (before merging in July 2008 with Gaz de France)	–	–	138	120
Lafarge (before 2008)	–	–	–	75
Pernod Ricard (wines and spirits)	8.2	4.1	18	14
			853	571
Other holdings			(27)	18
Other operating earnings from holding companies			(118)	20
Operating earnings			708	609
Non-operating income			(1,229)	113
Net earnings in Swiss francs			(521)	722
Net earnings in Canadian dollars[3]			(513)	646

[1] Earnings as shown in the table are those reported by Pargesa and do not include adjustments or reclassifications that could be made by Power Financial. As mentioned above, Pargesa uses IFRS accounting standards.

[2] GBL's interest in Lafarge has been consolidated under the equity accounting method from January 1, 2008.

[3] Average Swiss franc to Canadian dollar exchange rate: 0.9840 in 2008 and 0.8946 in 2007.

IMERYS

In 2008, Imerys, a world leader in mineral processing, operated in an environment characterized by steadily deteriorating economic conditions in America and Europe. The downswing sharply worsened in the fall, causing an unprecedented contraction in sales volumes in the last two months of the year in virtually all its markets. External variable costs and exchange parities were also unfavourable. In these difficult conditions, sales totalled €3.4 billion, up 1.4% from the previous year, benefiting from the consolidation of acquisitions completed in 2007. At comparable group structure and exchange rates, sales grew 0.7%, after a 4.5% improvement in product mix/price and a 3.7% contraction in sales volume.

The group's current operating income decreased 15.7% to €403 million. Net current income was also down by 15.7% to €267 million. Net income stood at €161 million, compared with €284 million in 2007, after factoring in restructuring and asset impairment expenses. The net financial debt was €1,566 million at the end of 2008 (€1,343 million in 2007).

TOTAL

Total, one of the largest international oil and gas groups, operated in unprecedentedly volatile oil markets in 2008, with the Brent price rising rapidly towards US$150/barrel in the first half of the year, then declining steeply as the world economy entered a brutal slowdown in the second half of the year. Brent prices plunged to US$35/barrel in December. European refining margins were good on average over the year, buoyed by sustained diesel demand. Further downstream in the petroleum chain, petrochemicals suffered in the first half of the year from the spike in crude prices; in the second half of the year, margins were restored but demand weakened as the world economy slowed. The dollar was also highly volatile, depreciating an average of 7% against the euro over the year, but appreciating 14% during the fourth quarter of 2008.

Consolidated sales stood at €180 billion, up 13% from 2007. The 2008 adjusted net operating income of business activities grew 14% to €13.9 billion; expressed in dollars, this is a 22% increase. Net income, excluding non-recurring items, was €15.6 billion against €18.1 billion in 2007. The group's gross investments totalled €20.1 billion over the year, compared with €16.1 billion the preceding year. The net debt of the group stood at €10.7 billion at the end of 2008 (€11.8 billion in 2007).

GDF SUEZ

GDF Suez, a world energy leader in electricity and natural gas, benefited from high and volatile market prices in 2008. The group's performance was also driven by the organic growth of its two core businesses, electricity and gas, in Europe and worldwide, and by continuing infrastructure investments.

The group met and exceeded all performance targets set for 2008 despite the effects of worsening economic conditions and regulatory factors that adversely impacted group results (inability to pass on to consumers the full increase of natural gas supply costs in France and a €250 million tax imposed by the Belgian government on local nuclear energy producers).

In 2008, GDF Suez's pro forma sales rose 16.6% to €83.1 billion. Underlying organic growth, excluding the effect of acquisitions, exchange rate fluctuations and changes in gas prices, reached 17.5%. The group's gross operating earnings (EBITDA) totalled €13.9 billion, up 10.8%. Net income for 2008, including non-recurring items, was €6.5 billion, up 13.0%. Net financial debt stood at €28.9 billion as of December 31, 2008.

LAFARGE

Lafarge, a world leader in building materials (cement, aggregates, concrete and gypsum), achieved sound operational performance in 2008 despite deteriorating markets in the fourth quarter. It exceeded the objectives of the 2008 Excellence Plan (launched in 2006 when senior management was changed), achieving cost reductions of €420 million in 2008, compared with the initial goal of €340 million. The Orascom Cement acquisition completed in January 2008 strengthened the group's presence in emerging markets and offset the slowdown in developed markets.

Sales were up 8.1% to €19.0 billion and current operating income rose 9.3% to €3,542 million. At comparable group structure and exchange rates, sales rose 3.4% and operating income slipped 0.2%. Net income, including non-recurring items, fell 16.3% to €1,598 million. The net financial debt of Lafarge was €16.9 billion as of December 31, 2008 (€8.7 billion in 2007). In an unprecedented financial and economic environment, Lafarge indicated that its objective is to reduce its debt in 2009. On February 20, 2009, Lafarge announced an action plan that includes operational measures and a strengthening of its financial structure, together with a €1.5 billion rights issue, of which GBL has agreed to underwrite its share.

SUEZ ENVIRONNEMENT

Suez Environnement, a global leader in water and waste management services, reported for 2008 an improved performance in all business units, particularly at Water Europe which benefited from strong sale volumes and positive price effects, and at International with the strong performances from its subsidiary Degrémont and activities in North America, Asia, and Central Europe. Waste Europe posted positive growth for the full year but was impacted during the fourth quarter by the world economic slowdown and the decline in recycling activities.

In 2008, Suez Environnement's sales grew 5.4% to €12.4 billion. Net income was up 8.4% to €533 million. The net debt of the group stood at €6.0 billion at year-end.

PERNOD RICARD

For 2007-2008, Pernod Ricard, the world co-leader in wines and spirits, recorded strong growth in emerging countries and continued to grow at a more moderate pace in Western markets, in a less buoyant global economic climate. Each region recorded growth in its business activities and operational profitability, driven mainly by increased investment in advertising, promotion, and continued refocusing on the group's 15 strategic brands. The year 2008 was mainly marked by the acquisition of the Vin & Sprit group, completed on July 23, 2008. Owner of the premium Absolut vodka brand and a global leader in its segment, Vin & Sprit improves the group's growth prospects.

For the 2007-2008 year ended June 30, 2008, Pernod Ricard's sales grew 2.3% to €6,589 million and its current operating income rose 5.2% to €1,522 million. Net income was up 7.7% to €897 million. For the first half of the 2008-2009 year ended December 31, 2008, sales were €4,212 million, a 13.4% increase. Current net income reached €685 million, up 15.3%. The group's net debt stood at €13.0 billion as of December 31, 2008.

DIVIDEND

At the next Annual Meeting of Shareholders on May 7, 2009, Pargesa's Board of Directors will propose maintaining the previous year's dividend of SF2.62 per bearer share, for a total distribution of SF222 million.

OUTLOOK

After years of strong growth sustained by easy access to inexpensive credit, the world must face a brutal economic downturn linked in particular to the squeeze on available credit. Visibility for 2009, in terms of economic activity, is particularly poor as the year gets under way. In this context, liquidity and financing becomes more than ever a priority.

To face these challenges, the Pargesa group should benefit from its sound financial structure base and resources, and also from its business model aiming to focus its investments on a limited number of large companies, active in basic industries, and each of whom are leaders on their respective markets.

SIMPLIFIED PRESENTATION OF THE FINANCIAL STATEMENTS ACCORDING TO IFRS

UNDER IFRS, PARGESA MUST INCLUDE THE FINANCIAL STATEMENTS OF GBL AND IMERYS IN ITS FINANCIAL STATEMENTS.

Statement of earnings — simplified presentation

[in millions of Swiss francs]	**2008**	2007
Operating revenue	**5,660.6**	5,695.0
Operating profit from continuing operations	**(1,822.8)**	1,009.1
Dividends and interest on long-term investments	**767.5**	740.4
Other financial profits	**(191.9)**	(70.3)
Taxes	**(139.6)**	(136.1)
Income from associates	**459.3**	35.2
Net profit from continuing operations	**(927.5)**	1,578.3
Attributable to non-controlling interests	**(406.7)**	856.0
Attributable to Pargesa shareholders [group share]	**(520.8)**	722.3

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